SME Policy Index

Western Balkans and Turkey 2019

ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE

OECD

European Commission

ETF Working together Learning for life

European Bank for Reconstruction and Development

SME Policy Index: Western Balkans and Turkey 2019

ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE

Please cite this publication as:
OECD/ETF/EU/EBRD (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris.
https://doi.org/10.1787/g2g9fa9a-en

ISBN 978-92-64-31286-9 (print)
ISBN 978-92-64-31295-1 (pdf)

SME Policy Index
ISSN 2413-6875 (print)
ISSN 2413-6883 (online)

European Union
Catalogue number: ET-04-19-127-EN-C (print)
Catalogue number: ET-04-19-127-EN-N (pdf)
ISBN 978-92-79-99991-8 (print)
ISBN 978-92-79-99992-5 (pdf)

Photo credits: Cover © Designed by Caroline Lee, Spielplatz 13.

Corrigenda to OECD publications may be found on line at: *www.oecd.org/about/publishing/corrigenda.htm*.

Foreword

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

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

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

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

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

This report is the result of a collaborative effort by the Organisation for Economic Co-operation and Development (OECD), the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation (ETF), with the support of the European Commission and the governments involved. The views of a wide range of stakeholders, including SMEs themselves, were sought and are reflected throughout the publication.

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

Angel Gurría

Secretary General
OECD

Johannes Hahn

EU Commissioner for
European Neighbourhood
Policy and Enlargement
Negotiations

Suma Chakrabarti

President
European Bank
for Reconstruction
and Development

Cesare Onestini

Director
European Training
Fondation

Acknowledgements

The *SME Policy Index: Western Balkans and Turkey 2019 - Assessing the Implementation of the Small Business Act* is the outcome of work conducted by the OECD and seven pre-EU accession economies (Albania, Bosnia and Herzegovina, Kosovo,* Montenegro, the Republic of North Macedonia, Serbia, and Turkey) in co-operation with the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation (ETF). The work was co-ordinated by the OECD's South East Europe Division.

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

The work was led by Umur Gökçe, OECD South East Europe Division. The project benefitted from the early guidance of Clément Brenot, OECD South East Europe Division. It further profited from inputs by William Tompson, Head of the Eurasia Division, OECD, as lead reviewer of the publication.

This report was made possible thanks to the contributions of the National Small Business Act (SBA) co-ordinators who supported the data-gathering and verification process. Our special thanks also go to 600 government officials and other stakeholders who have been actively involved across the region, whose support and dedication have made the development of this publication possible. We would like especially to acknowledge the contributions of the following individuals and organisations:

Albania: Majlinda Hafizi (SBA Co-ordinator of Albania), Gavril Lasku, Eralda Shtylla (Ministry of Finance and Economy), Evisi Kopliku (Ministry of Tourism and Environment), Valmira Bebri and Etugert Llazi (Institute of Statistics).

Bosnia and Herzegovina: Dragan Milović (SBA Co-ordinator of Bosnia and Herzegovina), Adis Fajić (Co-ordinator of the Federation of Bosnia and Herzegovina), Zoran Savić (Co-ordinator of the Republika Srpska), Milka Latinčić (Ministry of Industry, Energy and Mining of the Republika Srpska), Amra Abadžić (Sub-Department for Economic Development of Brčko District), Miljan Popić (Agency of Statistics of Bosnia and Herzegovina).

North Macedonia: Blerim Zllatku (SBA Co-ordinator of North Macedonia) and Branko Hinić (State Statistical Office).

* 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.

Kosovo: Nol Buzhala (SBA Co-ordinator of Kosovo), Kreshnik Thaqi (Ministry of Trade and Industry), Avni Kastrati (Kosovo Agency of Statistics), Besian Mustafa (former SBA Co-ordinator of Kosovo).

Montenegro: Radosav Babić (SBA Co-ordinator of Montenegro), Sanja Varajić, Anđela Gajević (Ministry of Economy of Montenegro), Marijana Popović-Rončević (Statistical Office of Montenegro), Aleksandar Pavićević (former SBA Co-ordinator of Montenegro).

Serbia: Katarina Obradović Jovanović (SBA Co-ordinator of Serbia), Jelena Matović (Ministry of Economy), Jelena Šćekić (Ministry of Economy), Nenad Radošević (Statistical Office of Serbia).

Turkey: Necati Günaydın (SBA Co-ordinator of Turkey) Neriman Pınar Işın, Beyza Kuriş, Abdullah Aktepe (KOSGEB), Ş. Şenol Bozdağ, Murat Yılmaz (Turkish Statistical Institute).

The principal authors of the *SME Policy Index: Western Balkans and Turkey 2019* are shown in the table below:

Executive summary	Umur Gökçe
Economic context and the role of SMEs in the Western Balkans and Turkey	Martin Kohtze
Policy framework and assessment process	Irhad Puce
Chapter 1: Entrepreneurial learning and women's entrepreneurship (Dimension 1)	Anthony Gribben, Olena Bekh (ETF)
Chapter 2: Bankruptcy and second chance for SMEs (Dimension 2)	Ali Fuad Turgut with expert guidance from Krassin Dimitrov (external consultant)
Chapter 3: Institutional and regulatory framework for SME policy making (Dimension 3)	Jovana Pavlović
Chapter 4: Operational environment for SMEs (Dimension 4)	Ali Fuad Turgut, Piotr Dudek
Chapter 5. Support services for SMEs (Dimension 5a)	Martin Kohtze
Chapter 6: Public procurement (Dimension 5b)	Erika Bozzay in co-operation with Darius Piasta, Marian Lemke and Piotr-Nils Gorecki (OECD Sigma)
Chapter 7. Access to finance for SMEs (Dimension 6)	Christian Cronauer, Svenja Petersen, Simone Zeh Atanasovski (EBRD)
Chapter 8. Standards and technical regulations (Dimension 7)	Umur Gökçe and Irhad Puce in co-operation with Knut Blind, Mona Mirtsch and Claudia Koch (Technische Universität Berlin)
Chapter 9. Enterprise skills (Dimension 8a)	Pirita Vuorinen (ETF)
Chapter 10. Innovation policy for SMEs (Dimension 8b)	Marko Atanasovski (external consultant), Umur Gökçe
Chapter 11. SMEs in a green economy (Dimension 9)	Jovana Pavlović
Chapter 12. Internationalisation of SMEs (Dimension 10)	Martin Kohtze, Damaris Bangean
SBA profiles	The general parts of the profiles were drafted by the OECD SEE team, while the dimension-specific parts were drafted by the same authors as above, with the following exceptions. For Dimension 1 and Dimension 8a, Kristien Van den Eynde (ETF) was also one of the authors, while Dimension 8b was drafted by Katarina Urošević (external consultant).
Annexes	Irhad Puce

Note: All authors are from the OECD South East Europe Division, unless specified otherwise.

The report was reviewed by and benefitted from further inputs provided by the OECD Centre for Tax Policy and Administration; the OECD Environment Directorate; the OECD Directorate for Science, Technology and Innovation; and OECD SIGMA (Support for Improvement in Governance and Management). At the EBRD, inputs were provided by the SME Finance and Development Group; the Economics Policy and Governance Department; the Office of the General Counsel, Local Currency and Capital Markets; and the country teams in the Western Balkans and Turkey.

The publication was also reviewed and supported by the European Commission's Directorate-General Internal Market, Industry, Entrepreneurship and SMEs (DG GROW); Directorate-General Neighbourhood and Enlargement Negotiations (DG NEAR); and the EU Delegations in the Western Balkans and Turkey. In particular, the OECD team are grateful for the contributions from Youssef Tadros (DG NEAR), Christos Kyriatzis, Laura Mc Grath, Francesca Porcelli, Lukrecija Kireta, Argyro Karachaliou, Thomas Heinemeier, Claudia Martinez Felix, Eva Maria Revilla Penaranda, Simone Baldassari, Artur Romanek (DG GROW).

The independent assessments were conducted with the support of local consultants: Juela Shano (Albania), Edin Jahić (Bosnia and Herzegovina), Valmira Rexhëbeqaj (Kosovo), Dragana Radević (Montenegro), Igor Nikoloski and Roman Papadimitrov (North Macedonia), Katarina Urošević (Serbia), and Şirin Elçi and Özge Eyigün (Turkey).

The following people also contributed significantly to the success of the project: Patrik Pruzinsky, Przemysław Kowalski, Alex Silvestri, Marietta Martin and Xhuliano Dule.

The report was prepared for publication by Camille Hewitt and Renée Chantrill, with the strategic support of Vanessa Berry-Chatelain (OECD Global Relations Secretariat) and Anne-Lise Prigent (OECD Public Affairs and Communications Directorate). It was edited and proofread by Fiona Hinchcliffe, Sally Hinchcliffe and Clare Rogers.

This report has been produced with the financial assistance of the European Union. The views herein can in no way be taken to reflect the official position of the European Union or the Member States.

Table of Contents

Tables

Figures

Boxes

Abbreviations and Acronyms

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

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

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

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

Economy abbreviations*

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

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

Executive summary

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

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

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

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

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

[*] This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

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

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

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

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

.

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

The economic context

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

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

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

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

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

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

* 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.

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

Box 1. The WBT economies' EU accession status

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

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

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

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

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

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

In 2017, **Albania** had a population of 2.87 million, making it the fourth largest economy of the WBT region. Its GDP per capita was slightly higher than that of Bosnia and Herzegovina, while its unemployment rate was lower, at 14.1% in 2017, the third lowest in the region. Agriculture plays a much more important role in Albania than in the other six WBT economies, representing 19.0% of GDP in value added and employing 40.3% of the active labour force in 2017. Nonetheless, as in the other WBT economies, services and industry are the most important sectors of the Albanian economy in terms of both value added and employment.

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

Table 2. Selected structural indicators (2017)

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

Note: [e] estimate; [p] provisional; * 2016 data due to unavailability of 2017 data; ILO – International Labour Organization; PPP – purchasing power parity. The WBT averages have been calculated as simple averages; data for Kosovo on employment in services, industry and agriculture were not available.

Sources: [1] World Bank (2018[3]), *World Bank Open Data* (database), https://data.worldbank.org; [2] Eurostat (2018[4]), *Eurostat* (database), https://ec.europa.eu/eurostat/data/database; [3] EC (2018[5]), *EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018*, https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en; [4] ILO (2018[6]) ILOSTAT, http://www.ilo.org/ilostat.

Kosovo, with a population of 1.83 million in 2017, is the second smallest economy of the WBT region. Compared to the other WBT economies, it had the lowest GDP per capita and the highest unemployment rate in in 2017: at 30.5% of the active population, Kosovo's unemployment rate was 12.1 percentage points above the WBT average. In comparison to its WBT peers, Kosovo's services sector makes the lowest contribution to GDP in terms of valued added (45.8%), while industry contributes more to the economy's GDP than in the average WBT economy.

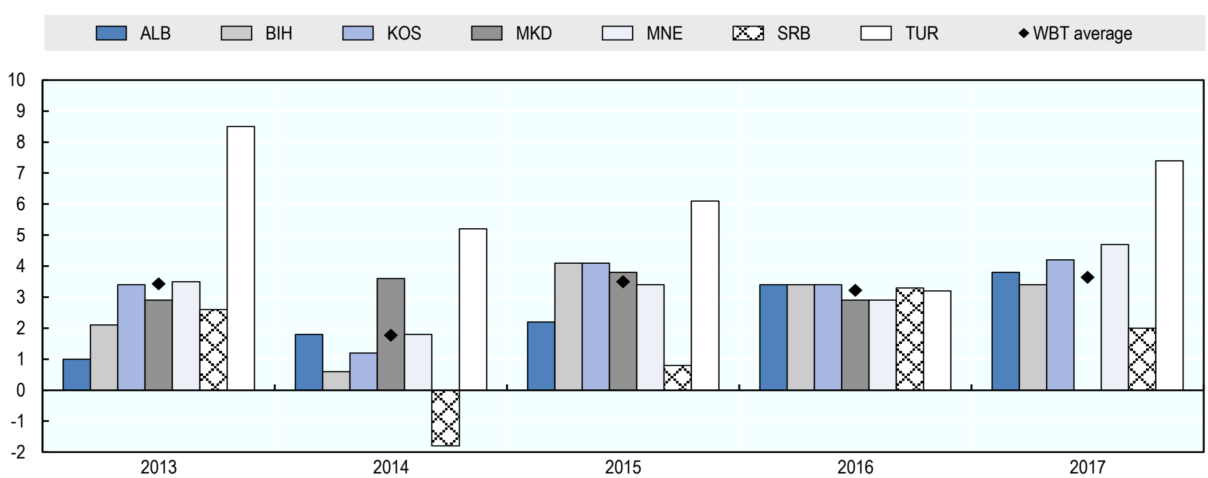
With a population of 622 471 in 2017, **Montenegro** is the smallest of the WBT economies. It is also the most developed of the six Western Balkan economies in terms of GDP per capita. While its unemployment rate is below the WBT average, 16.4% of its active labour force were unemployed in 2017 – the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

Recent economic trends

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

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

Annual % change



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

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

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

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

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

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

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

Note: For inflation figures, the consumer price index was used for all WBT economies except Montenegro and Kosovo, where the harmonised index of consumer prices was used instead. The FDI figures for Kosovo are not net, but reflect inflows.

Sources: [1] EC (2018[5]), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en; [2] EBRD (2018[7]), *Transition Report 2018-19: Country Assessments*, https://2018.tr-ebrd.com/downloads.

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

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

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

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

With GDP growing 4.7% in 2017, **Montenegro** registered the highest growth rate among the six Western Balkan economies that year (Figure 1). However, Montenegro also had the highest external debt in the WBT region, amounting to 160.2% of GDP in 2017. Montenegro also has a considerable trade imbalance – with imports in 2017 amounting to 64.5% of GDP, compared to just 41.5% for exports. Consequently, the economy has the largest current account deficit in the region, at 16.3% of GDP in 2017, 9.6 percentage points higher than the WBT average.

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

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

SME sector performance in the Western Balkans and Turkey

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

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

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

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

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

In 2017, SMEs made up 99.7% of all enterprises in the Western Balkans and Turkey, ranging from 99.1% in Bosnia and Herzegovina to 99.9% in Kosovo. Micro enterprises make up by far the highest share: they accounted for 90.4% of all enterprises in the WBT on average in 2017, ranging from 87.9% in Albania to 96.2% in Serbia. The share of small enterprises ranged from 3% in Serbia to 17.3% in Bosnia and Herzegovina, while the share of medium-sized enterprises ranged between 0.66% in Serbia to 4.09% in Bosnia and Herzegovina. Large enterprises make up only 0.3% of all businesses in the average WBT economy, ranging from 0.14% in Kosovo to 0.88% in Bosnia and Herzegovina.

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

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

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

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

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

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

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

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

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

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

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

Sources: Statistical offices of the six Western Balkan economies and Turkey.

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

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

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

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

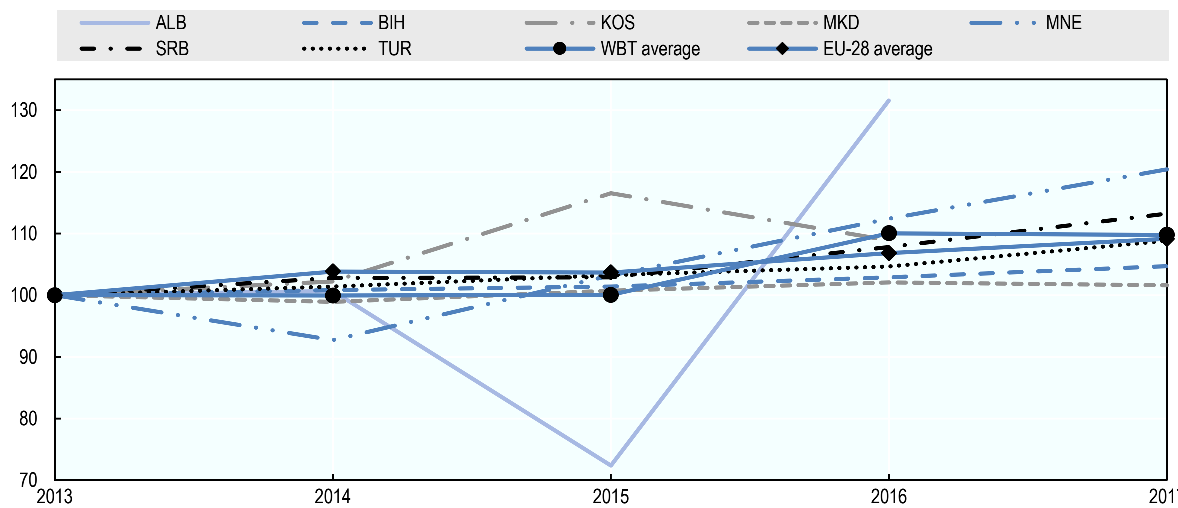
On average, between 2013 and 2016, the SME sector in the Western Balkans and Turkey has continued to grow in terms of numbers of businesses, their contribution to employment, value added and – to a lesser extent – the economies' exports. While the number of SMEs grew on average by 10%, and their contribution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

Growth in the number of SMEs

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

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

Index (2013=100)



Note: 2017 data for Albania and Kosovo are not available. The 2017 data for North Macedonia are provisional. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. The WBT average for 2017 only includes Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia and Turkey.
Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).

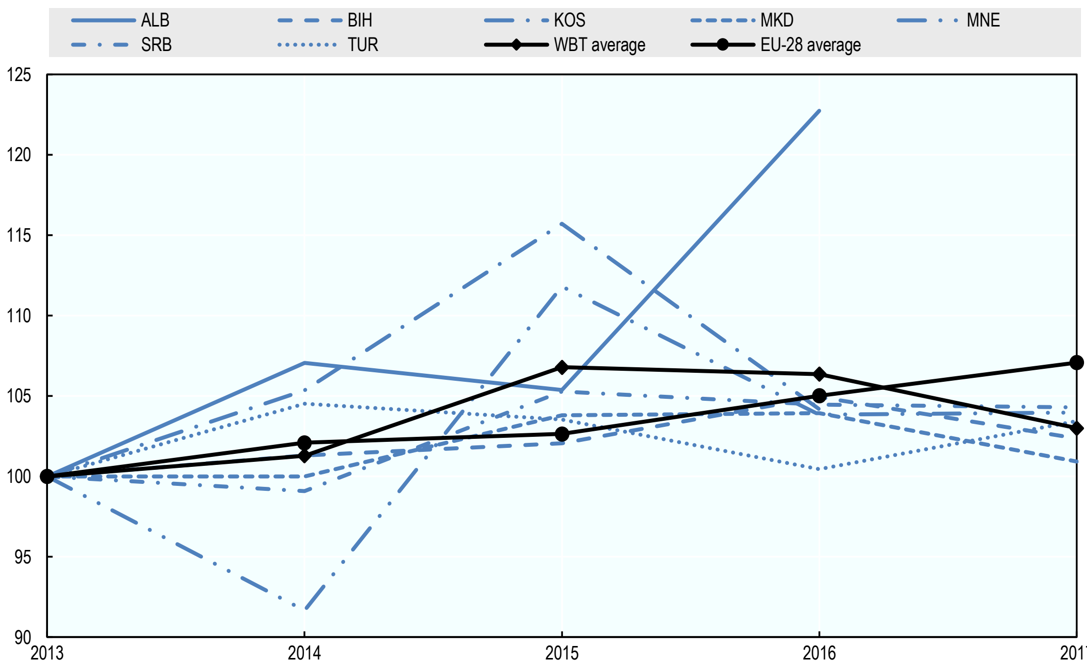
StatLink https://doi.org/10.1787/888933937185

Growth in employment

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

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

Index (2013=100)



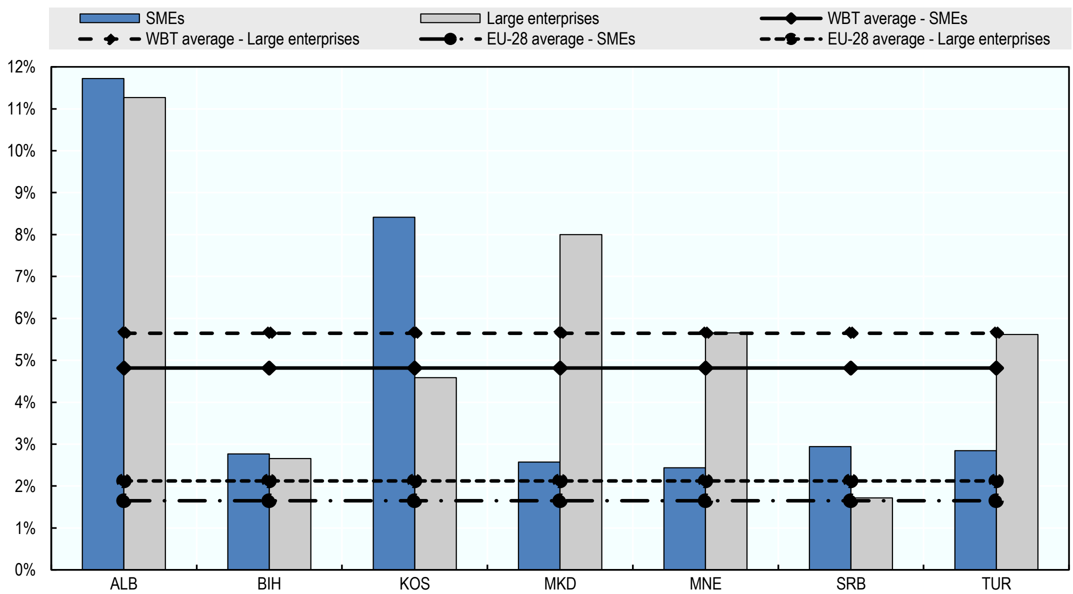
Note: 2017 data for Albania, Kosovo and Serbia are not available. The 2017 data for North Macedonia are provisional. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to the unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. The WBT average for 2017 only includes Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia and Turkey.
Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).

StatLink http://dx.doi.org/10.1787/888933937204

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

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

2014-16 average annual growth rate



Note: For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to the unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska.
Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).:

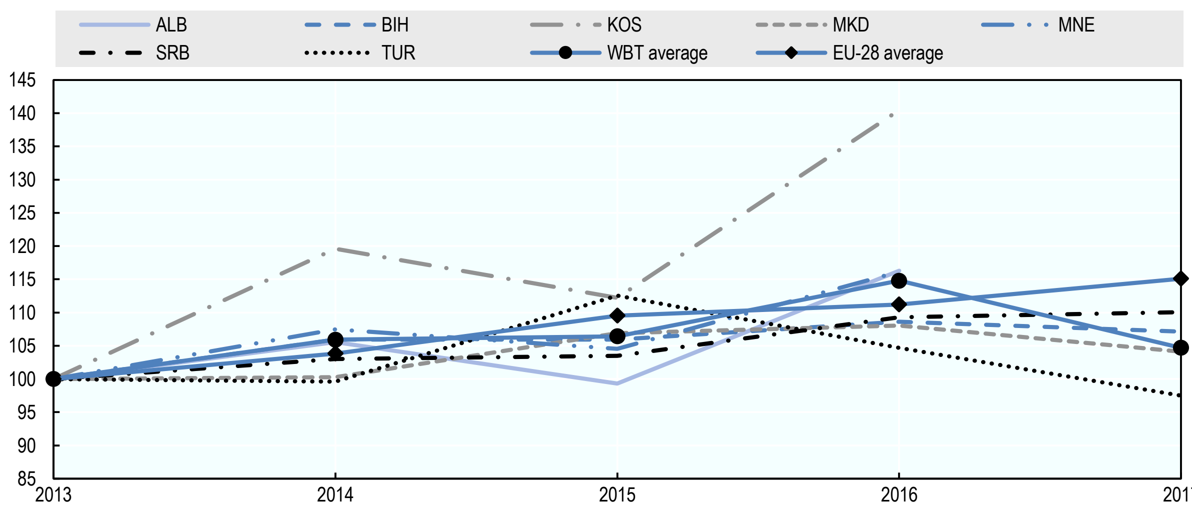
StatLink http://dx.doi.org/10.1787/888933937223/

Value added generated by SMEs

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

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

Index (2013=100)



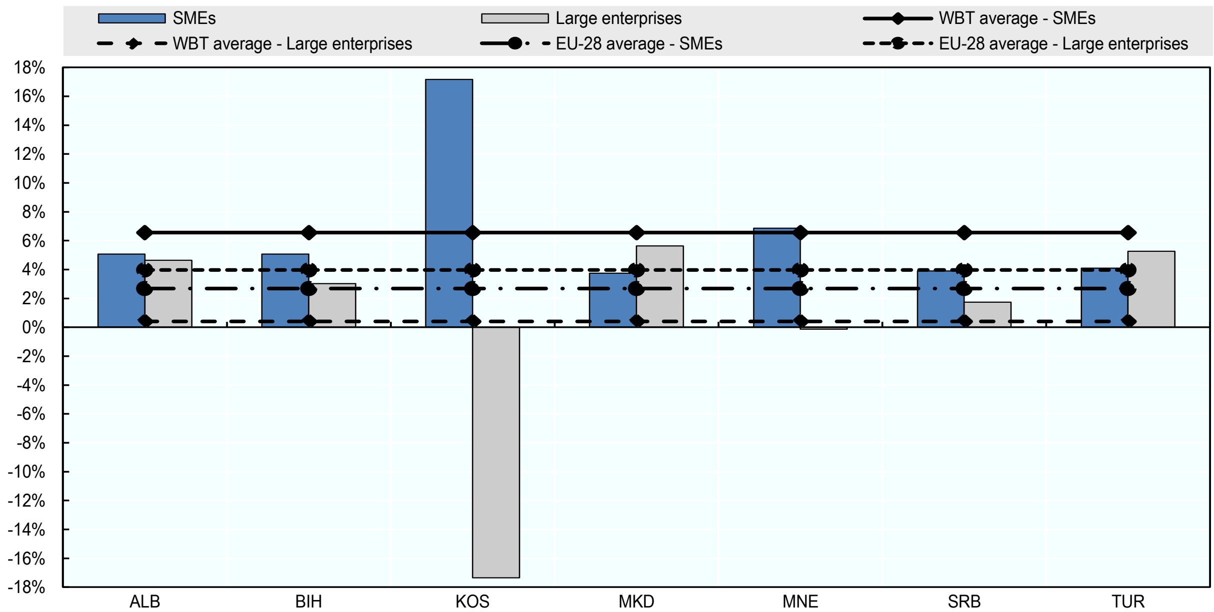
Note: 2017 data for Albania and Kosovo were not available. 2017 data for North Macedonia are provisional. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. The WBT average for 2017 only includes Bosnia and Herzegovina, North Macedonia, Serbia and Turkey.
Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).

StatLink http://dx.doi.org/10.1787/888933937242https://doi.org/10.1787/

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

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

CAGR 2013-16, current prices



Note: CAGR: compound annual growth rate. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to the unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska.
Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).

StatLink http://dx.doi.org/10.1787/888933937261

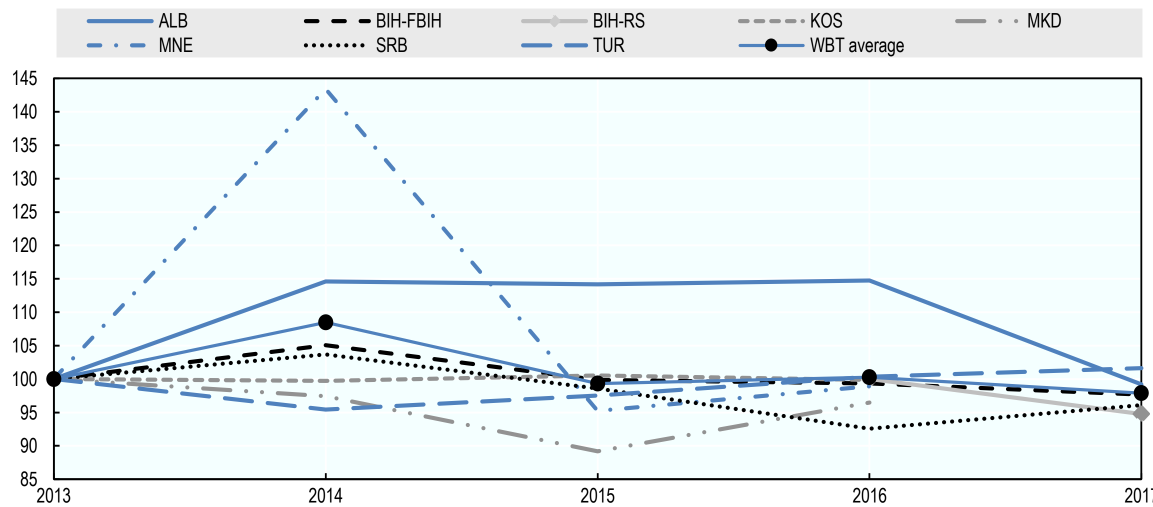
Export performance of SMEs

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

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

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

Index (2013=100)

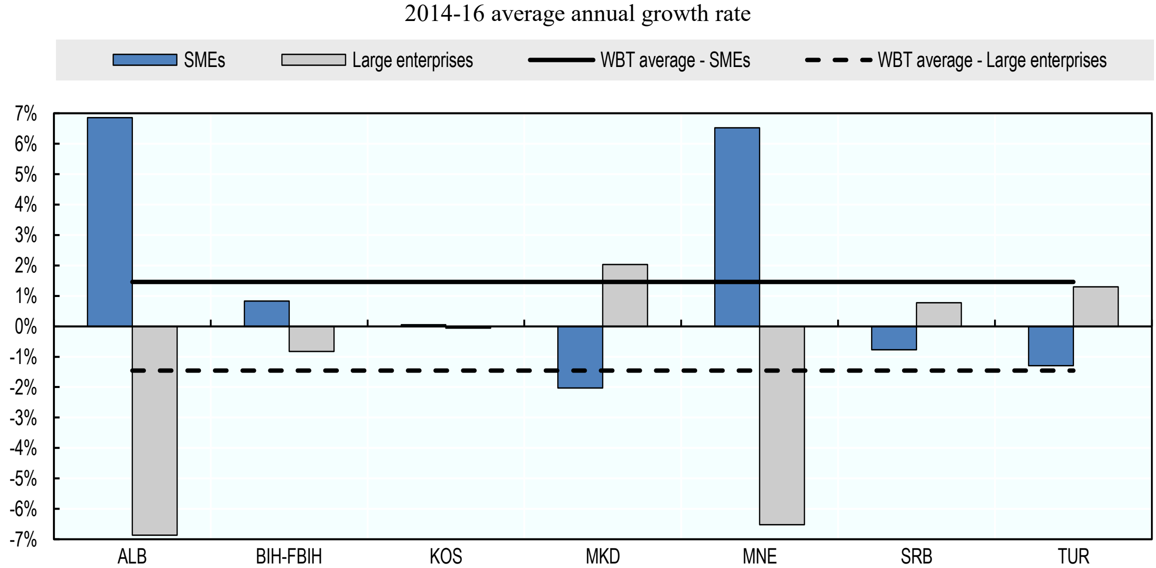


Note: 2017 data for Kosovo, Montenegro, North Macedonia and Serbia are not available. Due to the unavailability of data, the national definition of SMEs was used for Albania. Data for the Republika Srpska only available as of 2016. The WBT average for the years 2013, 2014 and 2015 do not include the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

StatLink http://dx.doi.org/10.1787/888933937280

Figure 8. Annual growth in share of exports: SMEs versus large enterprises

2014-16 average annual growth rate



Note: Due to the unavailability of data, the national definition of SMEs was used for Albania. For Bosnia and Herzegovina, only data for the Federation of Bosnia and Herzegovina were available. Data for the Federation of Bosnia and Herzegovina do not include unincorporated enterprises.

Sources: Statistical offices of the six Western Balkan economies and Turkey.

StatLink http://dx.doi.org/10.1787/888933937299

References

EBRD (2018), *Transition Report 2018-19: Country Assessments*, European Bank for Reconstruction and Development, London, https://2018.tr-ebrd.com/downloads/ (accessed on 19 November 2018). [7]

EC (2018), *A Credible Enlargement Perspective for and Enhanced EU Engagement with the Western Balkans*, European Commission, Brussels, https://eeas.europa.eu/regions/western-balkans/39711/credible-enlargement-perspective-and-enhanced-eu-engagement-western-balkans_en (accessed on 29 November 2018). [2]

EC (2018), "Economic Reform Programme of Albania (2018-2020): Commission assessment", *Commission Staff Working Document*, No. SWD(2018) 135 final, European Commission, Brussels, http://data.consilium.europa.eu/doc/document/ST-8117-2018-INIT/en/pdf (accessed on 27 November 2018). [8]

EC (2018), "Economic Reform Programme of Kosovo* (2018-2020): Commission assessment", *Commission Staff Working Document*, No. SWD(2018) 133 final, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_kosovo.pdf (accessed on 28 November 2018). [10]

EC (2018), "Economic Reform Programme of the Former Yugoslav Republic of Macedonia (2018-2020): Commission assessment", *Commission Staff Working Document*, No. SWD(2018) 134 final, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_the_former_yugoslav_republic_of_macedonia.pdf (accessed on 11 September 2018). [11]

EC (2018), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", *Technical Paper*, No. 028, European Commission, Brussels, http://dx.doi.org/10.2765/319761. [5]

EC (2018), *SME Performance Review*, European Commission, Brussels, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018). [13]

Eurostat (2018), *Eurostat (database)*, European Commission, https://ec.europa.eu/eurostat/data/database (accessed on 14 September 2018). [4]

ILO (2018), *ILOSTAT*, International Labour Organization, Geneva, http://www.ilo.org/ilostat (accessed on 12 September 2018). [6]

OECD (2018), *OECD Economic Surveys: Turkey 2018*, OECD Publishing, Paris, https://dx.doi.org/10.1787/eco_surveys-tur-2018-en. [12]

World Bank (2019), *World Bank Country and Lending Groups*, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups (accessed on 29 January 2019). [1]

World Bank (2018), "Higher but fragile growth", *Western Balkans Regular Economic Report*, No. 14, World Bank, Washington, DC, http://pubdocs.worldbank.org/en/194301538650996304/rev2-WBRER14-WQ-web-ENG.pdf (accessed on 28 November 2018). [9]

World Bank (2018), *World Bank Open Data (database)*, World Bank, https://data.worldbank.org/ (accessed on 19 November 2018). [3]

Policy framework and assessment process

Introduction

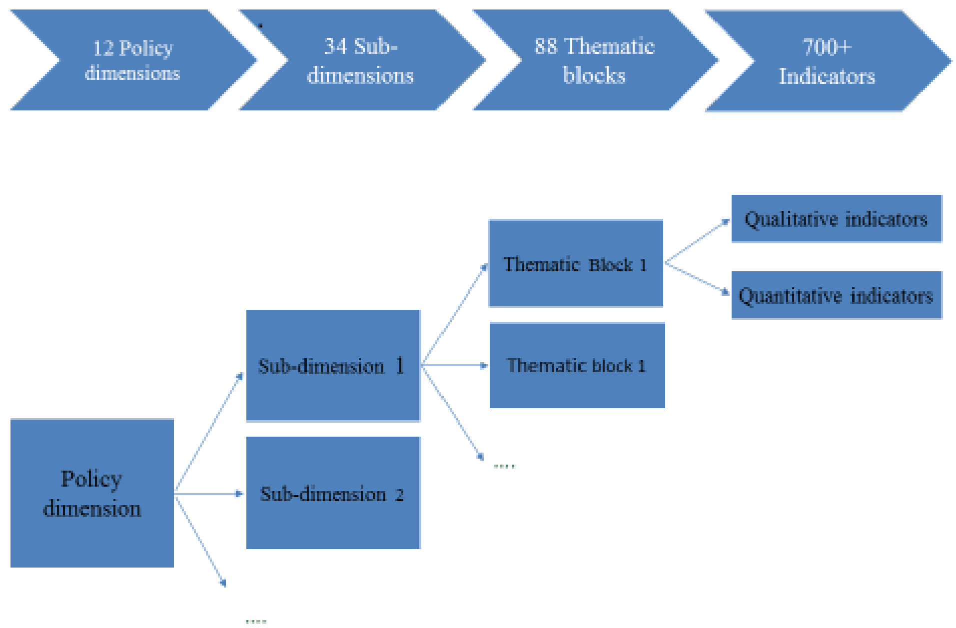
The SME Policy Index is a benchmarking tool for emerging economies to monitor and evaluate progress in policies that support small and medium-sized enterprises (SMEs). It is structured around the ten principles of the Small Business Act for Europe (SBA), providing a wide range of pro-enterprise measures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

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

Overview of the 2019 assessment framework

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

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



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

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

SBA principle	Related policy dimension	Related sub-dimension
1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded	1. Entrepreneurial learning and women's entrepreneurship	Entrepreneurial learning Women's entrepreneurship
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance	2. Bankruptcy and second chance	Preventive measures Bankruptcy procedures Promoting second chance
3. Design rules according to the "think small first" principle	3. Institutional and regulatory framework for SME policy making	Institutional framework Legislative simplification and regulatory impact analysis Public-private consultations
4. Make public administration responsive to SMEs	4. Operational environment for SMEs	Digital government services for enterprises Company registration Business licensing Tax compliance procedures for SMEs
5. Adapt public policy tools to SME needs	5a. Support services for SMEs	Business support services provided by the government Government initiatives to stimulate private business support services
	5b. Public procurement	Public procurement
6. Facilitate SME access to finance and develop a	6. Access to finance for SMEs	Legal and regulatory

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

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

Box 2. Refinements to the assessment framework

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

- five new sub-dimensions to include policy aspects that were not covered in the previous cycle
- extending and amending other sub-dimensions to collect more in-depth information
- increased focus on the economy's performance and implementation of SME policies
- private sector feedback to gauge the outcome of policies
- greater involvement of national statistical offices and more extensive collection of

relevant statistical data.

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

Methodological approach

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

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

Table 10. Description of score levels

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

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

The assessment process

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

The final scores are the result of a highly collaborative and consultative consolidation of these two assessments, enhanced by further desk research by the OECD and the partner organisations, as well as consultations with government representatives. To achieve this, a series of reconciliation meetings were held in each of the assessed economies to discuss and compare the two parallel assessments, which helped to reduce bias and misjudgements (see below for more details).

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

Assessment methodology for Dimensions 1 and 8a

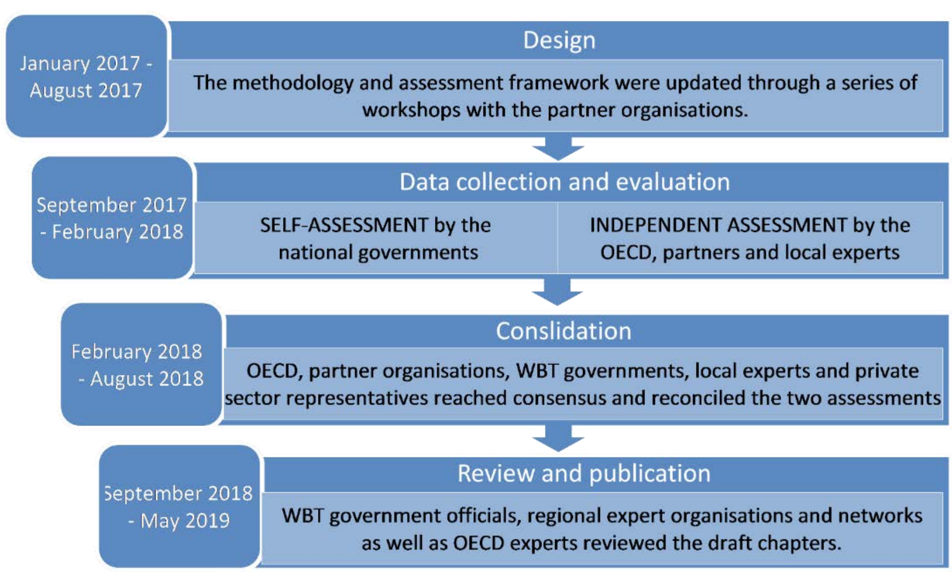
For this assessment, the methodology for the two human capital dimensions, Dimensions 1 and 8a, has been harmonised with the remaining dimensions. Previously, Dimensions 1 and 8a were assessed using 5-level qualitative indicators. Moving to the questionnaire, with its binary (yes/no), multiple-choice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

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

Assessment phases and timing of the 2019 assessment

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

Figure 10. Overview of the assessment process phases



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

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

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

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

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

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

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

- **Review and publication phase** (September 2018-May 2019). The draft SME Policy Index chapters were made available to the WBT governments, the European Commission and the EU delegations for review during September-

December 2018. Meanwhile, the draft report was also peer reviewed internally by the OECD, the EBRD and the ETF. Following the review, final comments were integrated into the report. The publication was launched on 7 May 2019 in Sarajevo.

Strengths and limitations

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

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

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

Overview of key findings

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

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

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

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

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

Key findings by dimension

Dimension 1: Entrepreneurial learning and women's entrepreneurship

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

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

Dimension 2: Bankruptcy and second chance for SMEs

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

Dimension 3: Institutional and regulatory framework for SME policy making

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

Dimension 4: Operational environment for SMEs

All WBT governments have established electronic portals allowing businesses to complete various services on line. These services include filing social security returns, pensions services, services related to the cadastre (property titles) and reporting enterprise statistics. Nevertheless, the range of services available on line varies across the economies and not all processes can be completed fully on line. One-stop shops have been established in all seven assessed economies, allowing businesses and administrations to save time and expense during the registration process. The WBT economies have also made a start in improving data exchanges among state institutions. However, their systems only connect a handful of institutions, meaning that various public institutions need to ask enterprises repeatedly for the same information, increasing the administrative burden on SMEs. All WBT economies apply clear procedures when granting licences. Yet most lack a centralised approach, with SMEs having to navigate a fragmented system involving different authorities in order to complete the necessary procedures. All WBT governments have established a threshold below which SMEs are not obliged to register for and remit value-added tax. This has reduced SMEs’ administrative burden and given them a competitive advantage over larger companies.

Dimension 5a: Support services for SMEs

All WBT governments have included specific steps in their relevant SME policy frameworks to boost the provision of business support services (BSSs) by both public institutions and private providers. However, only three of the WBT economies have conducted extensive stakeholder or training needs analyses to adapt their BSS provision to SMEs’ needs. In all the WBT economies SMEs have access to BSSs provided by public institutions, although not all the dedicated public SME institutions across the region directly delivered training or mentoring to SMEs during the assessment period. The provision of BSSs through private sector providers is also supported by all WBT economies. They all offer co-financing mechanisms which are characterised by defined structures and clear eligibility criteria. Although the relevant public institutions in all WBT economies provide information about their co-financing schemes, online databases showcasing private sector consultants are rare in the region. BSS provision is monitored by the SME agency or relevant public institution in all WBT economies, but an in-depth independent evaluation of BSSs has only been conducted in one of the economies. All the assessed economies offer online information about the BSSs available. However, only four of them have established a dedicated portal collating information on all of the BSSs available from all government institutions.

Dimension 5b: Public procurement

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

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

Dimension 6: Access to finance for SMEs

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

Dimension 7: Standards and technical regulations

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

Dimension 8a: Enterprise skills

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

Dimension 8b: Innovation policy for SMEs

The WBT economies have made progress in developing holistic innovation frameworks, and the majority have an innovation strategy in place, or are in the process of renewing one. The horizontal co-ordination of innovation policy has improved across the region, with national councils for innovation established in four economies. However, monitoring and evaluation of policy implementation is largely insufficient. While donor support remains critical, a few governments have allocated significant budgets to sustain this type of policy support in the long term. In addition, most economies have introduced a mix of financial instruments to support firms' innovation and technology development. However, with the exception of Turkey, none of the assessed economies have capitalised fully on the potential of indirect financial support – such as fiscal measures to encourage investments in research and development – as a cost-effective policy tool. Disbursement rates of funds earmarked for innovation are often low, suggesting there is room to increase SMEs' awareness to absorb available funds, and to improve the design of financial instruments. Young companies increasingly benefit from a solid infrastructure of incubators that also extends to regions outside the main economic hubs. Several WBT economies have established science and technology parks, technology institutes, and technology transfer offices, but it is too early to evaluate their impact. Government efforts to foster collaboration among industry and academia seem to be hampered by the private sector's poor perception of public research institutes' capacity, and the lack of an environment encouraging academic staff to engage in joint activities with the private sector.

Dimension 9: SMEs in a green economy

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

Dimension 10: Internationalisation of SMEs

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

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

2019 SME Policy Index scores for the Western Balkans and Turkey

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

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

Table 12. 2019 SME Policy Index Scores

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

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

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

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

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

Part I. Assessment findings by SBA Dimension

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

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

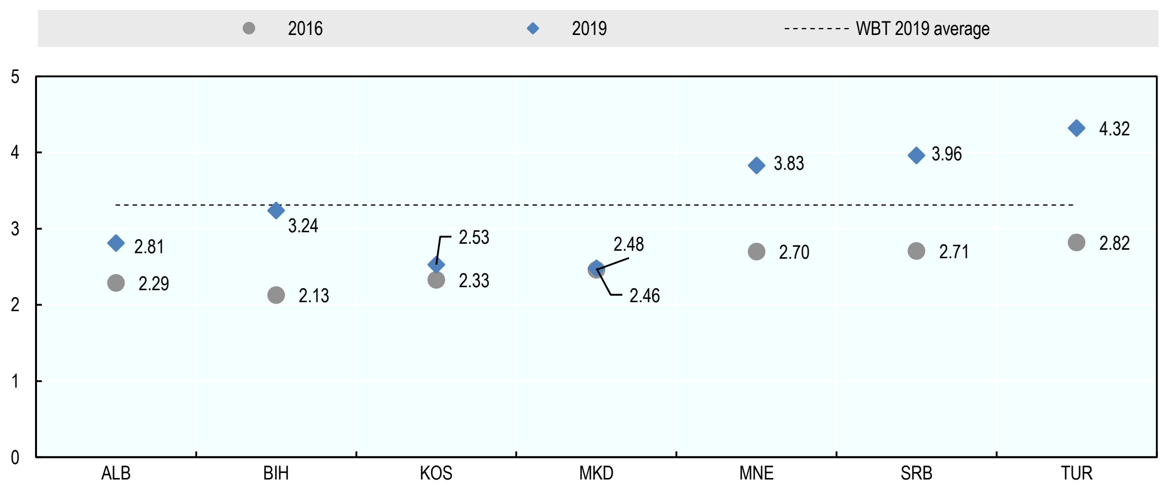
Key findings

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

Comparison with the 2016 assessment scores

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

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



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

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

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

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

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

Introduction

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

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

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

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

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

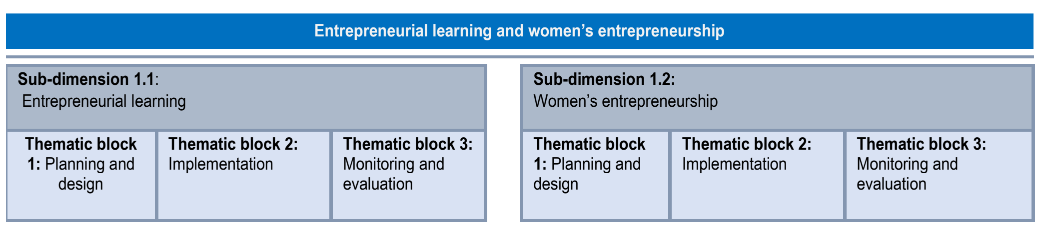
The analysis here places particular importance on the development of support structures for women entrepreneurs; measures to raise awareness of the importance of women's entrepreneurship and develop skills (European Parliament, 2013[10]); expanding dedicated partnerships, networking and support programmes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

Assessment framework

Structure

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

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



Key methodological changes to the assessment framework

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

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

The second thematic block, implementation, assesses how entrepreneurial learning is implemented in the various educational levels of education: primary, lower secondary, upper secondary, vocational education and training (VET), and higher education. It also covers how entrepreneurial learning is being promoted, whether practical experiences are being implemented, whether there is co-operation between education and businesses, and whether good practices in formal and non-formal education are being exchanged.

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

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

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

Analysis

Entrepreneurial learning (Sub-dimension 1.1)

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

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

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

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

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

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

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

The policy environment for entrepreneurial learning has improved

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

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

[*] This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Diverse partnerships are supporting entrepreneurial learning

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

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

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

Entrepreneurship key competence is implemented in a variety of ways

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

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

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

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

Young people's business skills are being developed

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

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

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

The School for Chemical Technology in Subotica prepares young people for the world of work by developing their vocational and commercial skills and the entrepreneurship key competence, with a particular emphasis on "learning by doing". Working in teams, students establish and run school-based companies involving market analysis, product identification (e.g. liquid soap), sourcing of raw materials, production management, testing and quality assurance packaging, marketing, and sales. The school was recognised for its good efforts in promoting entrepreneurship as a key competence in the awards for VET excellence at the European Vocational Skills Week 2018. More specifically, the school's teaching and learning approaches stand out for their concentration on a number of key areas of the European Entrepreneurship Competence Framework. These include identifying opportunities (products to meet market interests); recognising environmental concerns in the production process; team work to design, produce and commercialise products; and financial management. Moving away from instruction and towards more facilitation, teachers play a mentoring role to student teams while assessing individual students' theoretical knowledge and their practical skills. Finally, students learn how to network, liaise and learn from local businesses through direct business deals (e.g. procuring raw materials) and from the wider support from local economic development organisations for business development purposes.

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

Entrepreneurship is rarely included in careers guidance and counselling

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

Entrepreneurship in higher education is making little progress

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

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

New initiatives are building awareness, understanding and sharing good practice

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

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

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

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

The way forward for entrepreneurial learning

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

- **Raise awareness of the entrepreneurship key competence**. Given the newness of the EU's EntreComp framework, all the economies should determine ways to increase awareness and understanding of entrepreneurship as a key competence for employability and competitiveness. Possible measures include good practice awards, expert advocacy groups, seminars and conferences. Such initiatives would allow for the latest developments and good practice to be showcased. They would also generate dialogue – as much across government as with the private sector, parents and the teaching community – about the issues and options to move forward with developing entrepreneurship as a key competence. For example, the Principality of Asturias (Spain) already has a well-developed approach to lifelong learning but is revisiting its work on entrepreneurial learning through cross-stakeholder working groups to develop a shared understanding and a common language on EntreComp. It is also mapping existing activities against the EntreComp framework to identify gaps and extend or improve entrepreneurship promotion in education (European Committee of the Regions, 2018[15]).

- **Build entrepreneurial experience into vocational education programmes.** While many vocational programmes offer students opportunities to develop their occupational skills in work placements, consideration should be given to developing business skills as well (e.g. sales, marketing and finance). This could include developing a "practice enterprise" within the curriculum, with businesses directly supporting the teaching and learning process. Support could be obtained from EUROPEN-PEN International, which manages a European network of schools promoting practice enterprises and provides guidelines and support to vocational schools interested in developing business experience within their programmes (EUROPEN-PEN International, 2018[16]).
- **Share good practice in entrepreneurship promotion in higher education.** The economies should consider initiatives to identify and recognise the higher education institutions that are promoting entrepreneurship by creating an Entrepreneurial University of the Year award. This could be supported by the private sector, for example the banking community, and aim to promote cross-campus approaches to entrepreneurship promotion. One example to consider would be the United Kingdom's National Centre for Entrepreneurship in Education, which holds an annual competition to identify excellence in embedding entrepreneurship within a university's culture and curriculum. Submissions are subject to peer review. The initiative is run in co-operation with an education journal, thereby increasing awareness and visibility of entrepreneurship promotion in higher education (NCEE, 2018[17]).

Women's entrepreneurship (Sub-dimension 1.2)

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

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

To address the scarcity of women engaging in entrepreneurship, both in quantitative and in structural terms, it is not enough simply to introduce separate programmes for women to study entrepreneurship and SME skills. Instead, policy makers need to look at the complexity of the challenges and the cultural, social, economic, legal and regulatory factors that force many women to choose the predefined, traditional, "safe" route of wage employment that does not involve the risk and uncertainty of entrepreneurship, or that does not conflict with family or community expectations about the role of women in society, the economy and the labour market. The SBA assessment framework urges governments to recognise the equal role and value of women in the national and global economy, and promotes strong measures to address the causes rather than the symptoms behind the strikingly low numbers of women entrepreneurs. In the Western Balkans and Turkey, entrepreneurship could fit well with demands for a better quality of life for both sexes, and provide women and their families with a more comfortable work-life balance, while intensifying job creation for entrepreneurial women themselves and for their future employees.

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

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

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

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

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

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

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

Policy frameworks and partnerships support women's entrepreneurship

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Once the initial lack of data concerning women entrepreneurs has been closed in all the WBT economies, it goes without saying that the availability, quality and accessibility of individual level statistical data disaggregated by sex should remain on the radar of policy partnerships to allow systematic monitoring and evaluation of public and private programmes serving the needs of both male and female entrepreneurs.[6]

The way forward for women's entrepreneurship

Moving forward, policy makers should consider the following recommendations:

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

Box 1.2. France's Women's Entrepreneurship Plan

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

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

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

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

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

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

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

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

- **Focus on policy evaluation,** engaging the key policy partners and stakeholders, and making the results of evaluations public and open to feedback from stakeholders and beneficiaries. Data from evaluations should be used to build policy awareness in the wider society on the economic value of women's entrepreneurship and its importance for national growth and competitiveness. The programmes implemented by the Swedish Agency for Economic and Regional Growth could be a source of learning and inspiration in this area. They are based on hard evidence and linked to the overarching national strategy goals of gender equity and equality, so all the actions are fine-tuned to the specific needs of male and female target groups of entrepreneurs (Swedish Agency for Economic and Regional Growth, 2015[22]). During 2008-14, the Swedish government regularly reviewed and adjusted the strategies and the resources allocated to them based on the implementation results. Lessons from Sweden were a strong inspiration behind the launch in 2009 of the European Network of Female Entrepreneurship Ambassadors.

- **Continue building a gender-sensitive policy implementation environment** in which the gender sensitivity check becomes a routine procedure. Women's entrepreneurial human capital can be promoted through both gender-neutral support programmes based on the training needs of specific target groups of entrepreneurs (start-ups, growth phase, internationalising SMEs, etc.) delivered to mixed-sex groups; and gender-specific skill support measures designed and implemented in partnership with women's entrepreneurship networks, associations and organisations with strong experience of mentorship, coaching and other types of expertise. Ireland offers a good example of a gender-sensitive approach to entrepreneurship development, engaging the key government bodies such as Enterprise Ireland, the Gender Equality Unit and the Department of Jobs, Enterprise and Innovation, as well as a broad spectrum of policy partners representing national, regional, local level and strong private sector actors. For more information see Box 1.3 and the Enterprise Europe Network (2010[23]) and Enterprise Ireland (2018[24]) websites.

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

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

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

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

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

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

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

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

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

Conclusions

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

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

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

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

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

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

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

Notes

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

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

[3] For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

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

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

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

References

Bacigalupo, M. et al. (2016), *EntreComp: The Entrepreneurship Competence Framwork*, Publication Office of the European Union, Luxemourg, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/entrecomp-entrepreneurship-competence-framework. [8]

Bekh, O. (2014), "Training and support for women's entrepreneurship"*, ETF Working Paper*, European Training Foundation, https://www.etf.europa.eu/en/publications-and-resources/publications/training-and-support-womens-entrepreneurship. [18]

EC (2018), *Council Recommendations of 22 May 2018 On Key Competences for Lifelong Learning*, Euroepan Commission, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018H0604(01)&rid=7. [6]

EC (2016), *A New Skills Agenda for Europe: Working Together to Strenghten Human Capital, Employability and Competitiveness*, European Commission, Brussels, https://ec.europa.eu/transparency/regdoc/rep/1/2016/EN/1-2016-381-EN-F1-1.PDF. [4]

EC (2014), *Statistical Data on Women Entrepreneurs in Europe*, European Commission, Brussels, https://ec.europa.eu/growth/content/study-statistical-data-women-entrepreneurs-europe-0_en. [19]

EC (2013), *Entrepreneurship 2020 Action Plan: Reigniting the Entrepreneurial Spirit in Europe*, European Commission, Brussels, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52012DC0795. [3]

EC (2008), *Small Business Act for Europe*, Commission of the European Communities, Brussels, http://ec.europa.eu/enterprise/admin-burdens-reduction/home_en.htm (accessed on 13 August 2018). [9]

EEN (2010), *Female Entrepreneurship in Ireland*, Enterprise Europe Network website, http://een-ireland.ie/eei/assets/documents/uploaded/general/Female%20Entrepreneurship%20Ireland.pdf. [23]

Enterprise Ireland (2018), *Going For Growth*, Enterprise Ireland website, https://www.enterprise-ireland.com/en/About-Us/News/Going-for-Growth.html. [24]

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

EU (2015), *Riga Conclusions: Declaration of the Ministers in Charge of Vocational Education and Training*, European Union, https://eu2015.lv/images/notikumi/VET_RigaConclusions_2015.pdf. [7]

European Committee of the Regions (2018), *Asturias (Spain), Gelderland (Netherlands) and Thessaly (Greece) win European Entrepreneurial Region Award 2019*, European Committee of the Regions website, https://cor.europa.eu/en/news/Pages/Entrepreneurial-Region-Award-2019-.aspx. [15]

European Council (1993), *Conclusions of the Presidency*. [2]

European Parliament (2013), "Women's entrepreneurship in the EU", *Library Briefing*, Library of the European Parliament, http://www.europarl.europa.eu/RegData/bibliotheque/briefing/2013/130517/LDM_BRI(2013)130517_REV1_EN.pdf. [10]

EUROPEN-PEN International (2018), *EUROPEN-PEN International website*, EUROPEN-PEN International, https://www.penworldwide.org/. [16]

Farnesina (2017), *Trieste Western Balkan Summit: Declaration by the Italian Chair*, Ministry of Foreign Affairs and International Cooperation, Italy, https://www.esteri.it/mae/en/sala_stampa/archivionotizie/approfondimenti/trieste-western-balkan-summit-declaration.html. [12]

Government of France (2018), *L'entrepreneuriat: Redonner de la Compétitivité aux Entreprises [Entrepreneurship: Restoring Competitiveness to Business*, Government of France website, http://www.gouvernement.fr/action/l-entrepreneuriat. [21]

Gribben, A. (2018), "Tackling policy frustrations to youth entrepreneurship in the Western Balkans", *Small Enterprise Research*, Vol. 25/2, pp. 183-191, https://doi.org/10.1080/13215906.2018.1479294. [13]

Gribben, A. (2013), "Entrepreneurial learning: Keystone to an entrepreneurial culture", *Inform*, No. 16, European Training Foundation, https://www.etf.europa.eu/en/publications-and-resources/publications/inform-issue-16-entrepreneurial-learning-keystone. [5]

NCEE (2018), *Outstanding Entrepreneurial University Award*, National Centre for Entrepreneurship in Education website, http://ncee.org.uk/programmes/the-entrepreneurial-university/. [17]

OECD (2016), "Policy Brief on Women's Entrepreneurship", http://dx.doi.org/10.2767/50209. [20]

OECD et al. (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264254473-en. [1]

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

Swedish Agency for Economic and Regional Growth (2015), *Promoting Women's Entrepreneurshhop in Sweden 2007-2014: Results and Lessons Learned in Brief*, Swedish Agency for Economic and Regional Growth, https://tillvaxtverket.se/download/18.76e25c0c1551556fb105c34/1465381142746/info_0607_webb.pdf. [22]

Taleski, D. and B. Hoppe (2015), *Youth in South East Europe: Lost in Transition*, FES REgional Dialogue Southeast Europe, Friedrich Ebert Stiftung, http://library.fes.de/pdf-files/id-moe/11504.pdf. [11]

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

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

Key findings

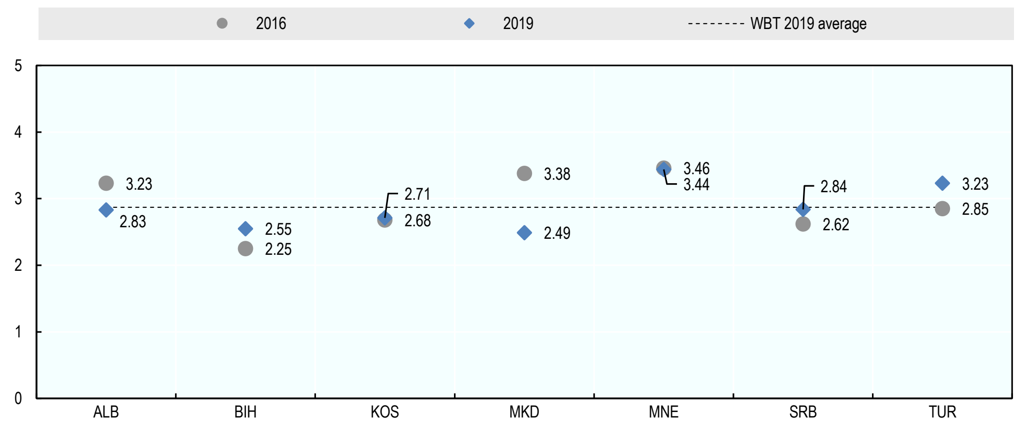
- **Mechanisms to prevent bankruptcy are still underdeveloped across the region**. The assessed economies lack institutional support and mechanisms to prevent entrepreneurs going bankrupt, such as early warning systems.
- **All economies have functioning insolvency laws that govern formal procedures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

Comparison with the 2016 assessment scores

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

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

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



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

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

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

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

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Introduction

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

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

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

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

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

Nevertheless, measures preventing bankruptcy and promoting second chances should be carefully considered, as they carry a certain level of economic risk. On the one hand, there are concerns about the survival of firms that would typically exit a competitive market, also called "zombie firms". These might weigh negatively on average productivity and potential growth opportunities for more productive firms, by slowing the reallocation of scarce sources to the most productive use (Adalet McGowan, Andrews and Millot, 2017[7]). On the other hand, an excessive number of entrepreneurs restarting allows "serial entrepreneurs" who have not necessarily learnt from their mistakes to reintegrate into the market (Ucbasaran, Westhead and Wright, 2011[8]). This might also have a negative impact on the reallocation of resources.

Assessment framework

Structure

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

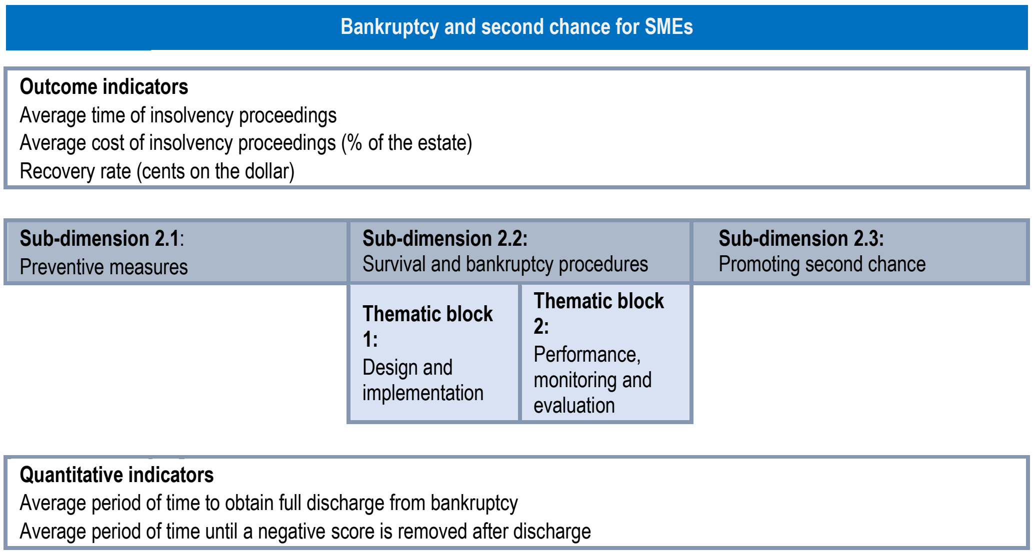
- **Sub-dimension 2.1: Preventive measures** analyses the tools and policies that the economies use to help SMEs avoid bankruptcy.
- **Sub-dimension 2.2: Survival and bankruptcy procedures** focuses on legislation and practice. It looks at whether survival procedures exist and how they operate; out-of-court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

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

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

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

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



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

Key methodological changes to the assessment framework

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

Table 2.2. Key changes in the composition of Dimension 2

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

Other sources of information

Statistical data from the World Bank Group's 2019 *Doing Business* report (World Bank, 2018[9]) were also used to assess the efficiency of bankruptcy regimes in the Western Balkans and Turkey. The report provided statistical indicators on insolvency such as time and cost (measured as a percentage of the estate) to resolve insolvency and recovery rate. The data presented in the report allowed the information on resolving insolvency to be compared across economies, as well as over time. In addition, to better capture entrepreneurs perceptions' and behaviours in the WBT region, the assessment looked at the fear of failure rate measured by the Global Entrepreneurship Monitoring report (see Annex 2.A) and the actions taken by entrepreneurs to resolve an overdue payment based on the business opinion survey from the Balkan Barometer 2018 (RCC, 2017[10]) (GEM, 2018[11]).

Analysis

Performance in bankruptcy and second chance

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

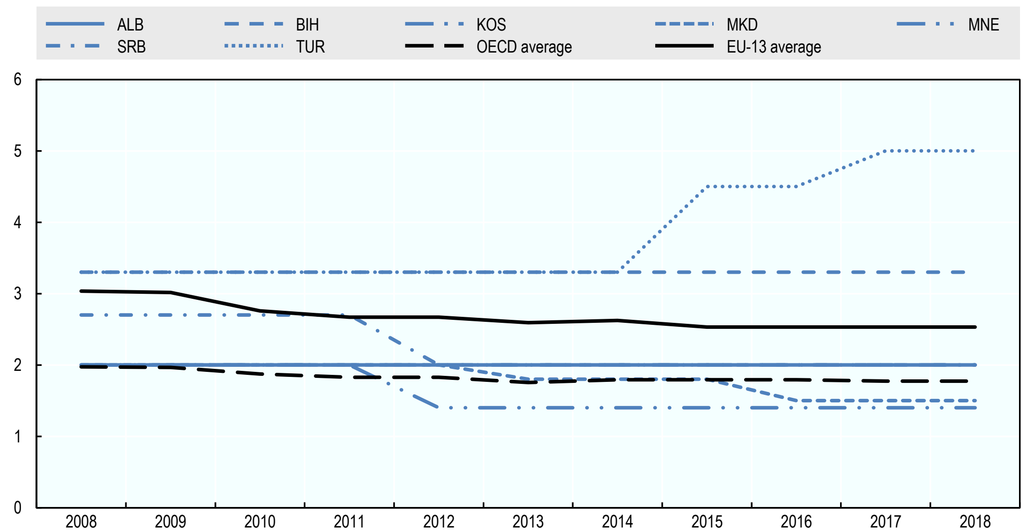
The region's performance in resolving insolvency has, on average, not improved since the previous assessment. The Republic of North Macedonia is the only WBT economy where the time taken to resolve insolvency has fallen since the previous assessment (Figure 2.3). This improvement is directly linked to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

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

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

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

Years



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

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

** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.

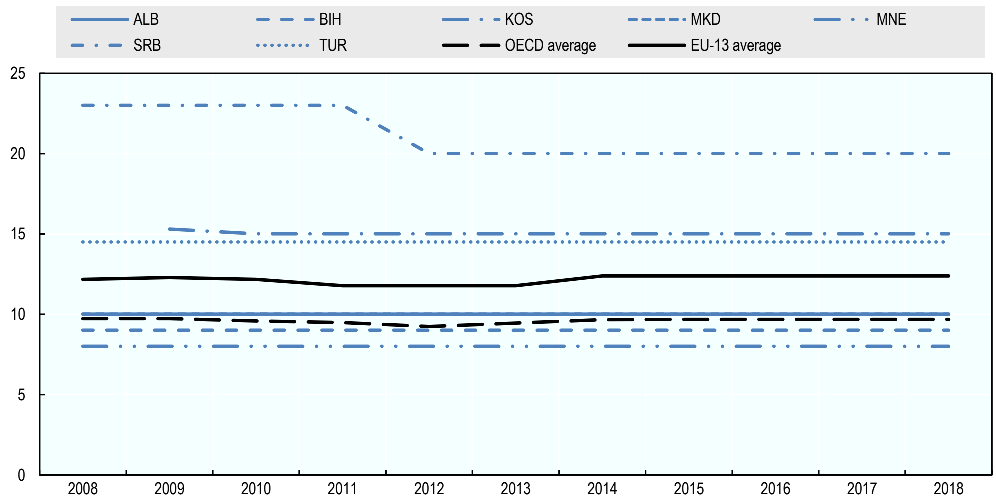
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Based on data from World Bank (2018[12]), *Doing Business website,* www.doingbusiness.org.

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

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

% of estate



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

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

** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.

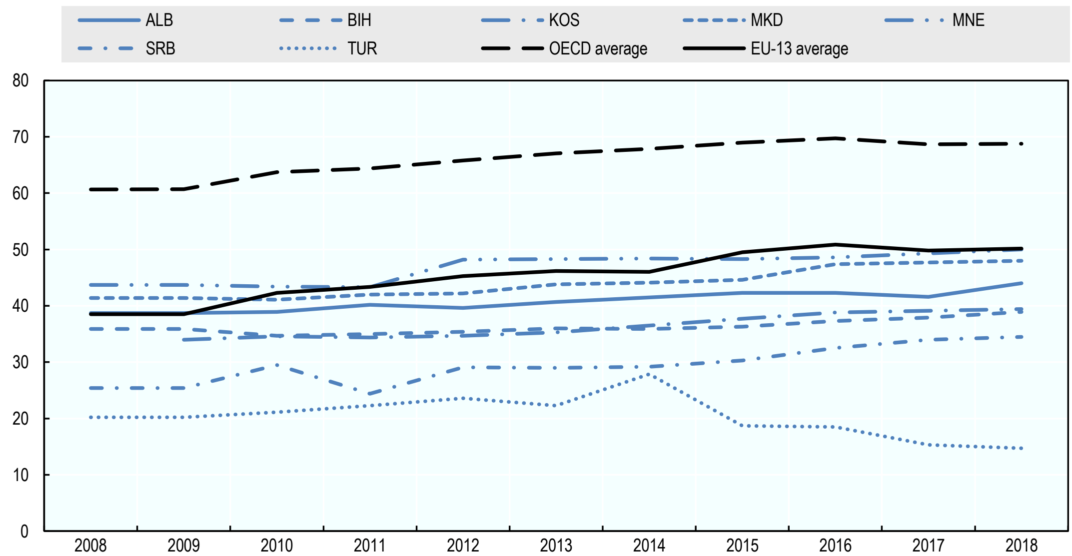
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Based on data from World Bank (2018[12]), *Doing Business website,* www.doingbusiness.org.

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

Figure 2.5. Recovery rate for resolving insolvency (2008-18)

Cents on the dollar



Note: Data for Japan, Mexico and the United States are missing for the period 2008-12 when calculating OECD average; data for Malta are missing for the period 2008-10 when calculating the EU-13 average.
EU-13 Member States – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
Source: Based on data from World Bank (2018[12]), *Doing Business website*, www.doingbusiness.org.

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

Preventive measures (Sub-dimension 2.1)

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

Government intervention is crucial in providing active assistance to entrepreneurs who fear failure or are in financial difficulties. Therefore, initiatives such as diagnostic tools and information services are the backbone of a successful government strategy to prevent bankruptcy. Moreover, limited information on the existence of such initiatives has a negative impact – not only on failed entrepreneurs, but also on potential entrepreneurs who might be discouraged from starting a business, as well as on the job market in general (EC, 2011[13]).

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

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

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

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

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

Mechanisms to help entrepreneurs overcome difficulties are underdeveloped

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

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

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

North Macedonia has a project funded by the Instrument for Pre-Accession Assistance on strengthening the administrative capacities for implementing the legal framework for the bankruptcy and liquidation of companies (Ministry of Economy, 2017[14]). It proposes developing a self-test website, but this has not yet been established. The aim of the website would be to detect financially distressed companies early on, in order to help them in a timely manner. The project offers training for entrepreneurs who fear failure, organised in co-ordination with the Ministry of Economy, Economic Chambers, and the Chamber of Bankruptcy Administration. However, active entrepreneurs not in financial distress were reluctant to attend these courses, demonstrating that entrepreneurs do not seek help and advice before financial problems emerge.

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

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

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

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

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

In Albania, the Central Bank publishes data on entrepreneurs' blocked accounts from different banks on its website, allowing financially distressed companies to be identified before they file for bankruptcy. In addition, some banks and private credit registries have developed their own mechanisms to assess customers' credit performance, by drawing on information from multiple sources such as tax declarations, social security declarations and balance sheets. These mechanisms have been designed with a view to reducing the number of non-performing loans.

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

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

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

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

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

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

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

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

Sources: Service-Public-Pro (2018[16]), *Alertes pour la prévention des difficultés des entreprises*, www.service-public.fr/professionnels-entreprises/vosdroits/F22321; OECD (2017[17]), *Observatoire consulaire des entreprises en difficultés*, www.oced.cci-paris-idf.fr/; CCNC (2018[18]), *La Prévention*, www.cncc.fr/prevention.html.

1. Commercial Code Article L234-1 al 4, *www.legifrance.gouv.fr/affichCode.do?idSectionTA=LEGISCTA000006146054&cidTexte=LEGITEXT000005634379&dateTexte=20060608*.

The way forward for preventive measures

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

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

Box 2.2. Entrepreneurial potential self-assessment

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

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

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

The core of the self-assessment is a set of 50 statements on which entrepreneurs give their opinion. Answers to these statements measure motivation, aptitude and attitude. The results allow a comparison between the individual's results and the mean of

Canadian entrepreneurs' scores. The questionnaire was completed almost 50 000 times in BDC's last fiscal period (2017/18).

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

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

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

Box 2.3. Early Warning Europe

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

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

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

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

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

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

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

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

Survival and bankruptcy procedures (Sub-dimension 2.2)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Insolvency regimes have been strengthened in most of the economies

Insolvency laws lay out the necessary legislative framework to give certainty over how insolvency proceedings are to be dealt with. They ensure that the liquidation of assets and distribution of the proceeds are done in a fair and orderly way among creditors. By doing so, they allow for better financial inclusion, and reduce the cost of obtaining credit (World Bank, 2018[22]). Moreover, insolvency laws offer legal protection to viable businesses by allowing them to negotiate arrangements with their creditors. Therefore, as the European Commission (EC) recommendation of March 2014[8] also stresses, having clear, simple and non-rigid insolvency laws are crucial for improving the business environment and supporting businesses' long-term survival.

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

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

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

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

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

Box 2.4. Montenegro's new insolvency regulations

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

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

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

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

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

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

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

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

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

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

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

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

Monitoring and evaluation of bankruptcy proceedings remain weak in the region

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

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

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

The assessed economies also sporadically monitor the implementation of bankruptcy and insolvency regulation. For example, the Albanian Bankruptcy Supervision Agency monitors bankruptcy administrators' implementation of the bankruptcy laws and procedures. Montenegro conducts monitoring via the Judicial Council, which publishes yearly reports on its activities and results, including information on insolvency procedures.

Box 2.5. An overview of insolvency indicators

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

World Bank Doing Business Report

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

European Commission data

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

OECD insolvency indicators

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

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

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

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

The way forward for survival and bankruptcy procedures

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

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

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

Box 2.6. Slovenia's post-crisis insolvency regime

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

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

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

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

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

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

Promoting second chance (Sub-dimension 2.3)

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

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

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

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

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

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

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

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

Formal bankruptcy discharge procedures exist in most economies

Bankruptcy discharge procedures are extremely important as they allow entrepreneurs to reintegrate into the economy. A discharge is a court order that releases the debtor from personal liabilities for certain specific debts covered by the legal framework. According to EU recommendations, discharge processes should be as quick as possible, ideally automatic and take no more than a year, in order to preserve the failed entrepreneur's resources for a possible restart. Nevertheless, it should be noted that while all the EU Member States allow discharges, it is still not possible to complete legal bankruptcy proceedings within a year in most of them, or to be discharged from bankruptcy within three years. Similarly, most of the EU Member States offer honest entrepreneurs no possibility of an automatic discharge after liquidation (EC, 2018[33]).

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

Programmes to promote second chance among failed entrepreneurs are still lacking

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

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

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

The lack of initiatives promoting second chances among previously bankrupt entrepreneurs is, however, not unique for the Western Balkans and Turkey. Even most EU Member States do not offer tailored support programmes for entrepreneurs looking to start afresh. Instead, governments often direct restarters to general support programmes, although these are less targeted. Annex 2.C summarises the second chance promotion programmes available in selected EU Member States.

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

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

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

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

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

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

Entrepreneurs still have obstacles to overcome before starting afresh

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

All the economies have a forgiving approach towards entrepreneurs who have failed: none impose any civic consequences such as the loss of the right to vote or to hold elected office. However, the situation is different when it comes to economic consequences. As discussed in the previous section, in North Macedonia and Serbia the legal framework does not allow an automatic discharge from debt rules, forcing entrepreneurs to open a court case to obtain a discharge, and consequently creating obstacles to a fresh start. In the entity of the Republika Srpska in Bosnia and Herzegovina, natural or legal persons cannot establish a company or participate in the share of another company until they have settled their debts (e.g. social security contributions) in the register of fines, a measure primarily aimed at protecting workers' rights. These regulatory obstacles and legislative gaps can harm failed entrepreneurs who wish to start again, and prevent them from using the expertise gained through their previous business endeavours.

The way forward for promoting second chance

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

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

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

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

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

- Executive coaching
- Mentoring
- Co-development workshops

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

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

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

Conclusions

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

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

Notes

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

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

[3] This assessment is complemented by private sector insights gathered through a set of interviews with the owners and managers of SMEs and representatives from chambers of commerce in the Western Balkans and Turkey – see Annex C for more details. For Dimension 2, the aim was to discover SMEs' awareness of and satisfaction with current government programmes on bankruptcy, second chance policies and alternative ways to file for bankruptcy.

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

[5] EU-13 Member States – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

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

[7] For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

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

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

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

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

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

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

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

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

References

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

Adalet McGowan, M. and D. Andrews (2016), "Insolvency regimes and productivity growth: A framework for analysis", *OECD Economics Department Working Papers*, No. 1309, OECD Publishing, Paris, http://dx.doi.org/10.1787/5jlv2jqhxgq6-en. [26]

Adalet McGowan, M., D. Andrews and V. Millot (2017), "Insolvency regimes, zombie firms and capital reallocation", *OECD Economics Department Working Papers*, No. 1399, OECD Publishing, Paris, https://doi.org/10.1787/5a16beda-en. [7]

Adalet McGowan, M., D. Andrews and V. Millot (2017), "The walking dead? Zombie firms and productivity performance in OECD countries", *OECD Economics Department Working Papers*, No. 1372, OECD Publishing, Paris, http://dx.doi.org/10.1787/180d80ad-en. [39]

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

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

Bezegova, E. et al. (2014), *Bankruptcy and Second Chance for Honest Bankrupt Entrepreneurs*, Publications Office of the European Union, https://publications.europa.eu/en/publication-detail/-/publication/24f281f2-9b0a-44d0-8681-af8bd7657747. [32]

Cardon, M. (2010), "Misfortunes or mistakes? Cultural sensemaking of entrepreneurial failure", *Journal of Business Venturing*, Vol. 26/1, pp. 79–92, https://doi.org/10.1016/j.jbusvent.2009.06.004. [5]

Cirmizi, E., L. Klapper and M. Uttamchand (2011), "The challenges of bankruptcy reform", *World Bank Research Observer*, Vol. 27/2, pp. 185-203, https://elibrary.worldbank.org/doi/abs/10.1093/wbro/lkr012. [1]

CNCC (2018), *La Prévention*, Compagnie Nationale des Commissaires aux Comptes, https://www.cncc.fr/prevention.html. [18]

Crunchbase (2018), *Fuckup Nights*, Crunchbase website, https://www.crunchbase.com/organization/fuck-up-nights. [36]

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

EBRD (2014), *Commercial Laws of Slovenia: An Assessment by the EBRD*, European Bank for Reconstruction and Development, https://www.ebrd.com/documents/legal-reform/slovenia-country-law-assessment.pdf. [29]

EC (2018), *2018 SBA Fact Sheet and Scoreboard*, European Commission, Luxembourg. [33]

EC (2017), *2017 SBA Fact Sheet*, European Commission, Luxembourg, https://ec.europa.eu/docsroom/documents/29489/attachments/1/translations/en/renditions/native. [15]

EC (2016), *Proposal for a Directive of the European Parlaiment and of the Council*, European Commission, Strasbourg, https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SWD:2016:0357:FIN:EN:PDF. [31]

EC (2014), *Comission Recommendation of 12 March 2014 on a New Approach to Business Failure and Insolvency*, European Commission, Brussels, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014H0135&from=EN. [25]

EC (2011), *A Second Chance for Entrepreneurs: Prevention of Bankruptcy, Simplification of Bankruptcy Procedures and Support for a Fresh Start*, EC Enterprise and Industry, European Commission, Luxembourg, https://ec.europa.eu/docsroom/documents/10451/attachments/1/translations/en/renditions/native. [13]

Failure Institute (2018), *Global Failure Index*, Failure Institute website, https://thefailureinstitute.com/global-failure-index/. [35]

Fuckup Nights (2018), *Fuckup Nights website*, https://fuckupnights.com/. [37]

GEM (2018), *Entrepreneurial Behaviour and Attitudes*, Global Entrepreneurship Monitor website, https://www.gemconsortium.org/data/key-aps (accessed on 1 September 2018). [11]

Hart, O. (2000), "Different approaches to bankruptcy"*, NBER Working Paper*, No. 7921, National Bureau of Economic Research, Cambridge, MA, https://www.nber.org/papers/w7921. [21]

Hayward, M., D. Shepherd and D. Griffin (2006), "A hubris theory of entrepreneurship", *Management Science*, Vol. 52, pp. 160-172, https://doi.org/10.1287/mnsc.1050.0483. [3]

IMF (2015), "Republic of Slovenia: Selected issues"*, IMF Country Report*, No. 15/42, International Monetary Fund, Washington, DC, https://www.imf.org/external/pubs/ft/scr/2015/cr1542.pdf. [30]

Liao, J., H. Welsch and C. Moutray (2008), "Start-up resources and entrepreneurial discontinuance: The case of nascent entrepreneurs 1", *Journal of Small Business Strategy*, Vol. 19/2, p. 1, https://www.questia.com/library/journal/1P3-1680693201/start-up-resources-and-entrepreneurial-discontinuance. [4]

Ministry of Economy (2017), *Project: Strengthening the Administrative Capacities for the Implementation of the Legal Framework for Bankruptcy and Voluntary Liquidation of Companies*, Ministry of Economy, Republic of North Macedonia, http://www.economy.gov.mk/page/strengthening-administrative-capacities. [14]

Ministry of Economy (2015), *SME Development Strategy & Action Plan 2015-2020*, Ministry of Economy, Republic of Serbia, http://www.privreda.gov.rs/wp-content/uploads/2017/01/Strategija-I-Plan_eng_poslednje.pdf. [34]

OCED (2017), *Observatoire Consulaire des Entreprises en Difficultés*, https://www.oced.cci-paris-idf.fr/ (accessed on 1 November 2018). [17]

OECD (2018), *Economic Policy Reforms 2018: Going for Growth Interim Report*, OECD Publishing, Paris, https://doi.org/10.1787/18132723. [27]

RCC (2017), *Balkan Barometre 2017: Business Opinion Survey*, Regional Cooperation Council. [10]

Service-Public-Pro (2018), *Alertes pour la prévention des difficultés des entreprises*, Service-Public-Pro website, https://www.service-public.fr/professionnels-entreprises/vosdroits/F22321. [16]

Stam, E. et al. (2008), "Renascent entrepreneurship", *Journal of Evolutionary Economics*, Vol. 18, pp. 493-507, http://dx.doi.org/10.1007/s00191-008-0095-7. [6]

Ucbasaran, D., P. Westhead and M. Wright (2011), "Why serial entrepreneurs don't learn from failure", *Harvard Business Review* 04, https://hbr.org/2011/04/why-serial-entrepreneurs-dont-learn-from-failure. [8]

UNCITRAL (2013), *UNCITRAL Legislative Guide on Insolvency Law*, United Nations Commission on International Trade Law, https://uncitral.un.org/en/texts/insolvency/legislativeguides/insolvency_law. [23]

World Bank (2018), *Doing Business 2019: Training for Reform*, World Bank Group, Washington, DC, https://openknowledge.worldbank.org/handle/10986/30438. [9]

World Bank (2018), *Doing Business website*, World Bank, http://www.doingbusiness.org. [12]

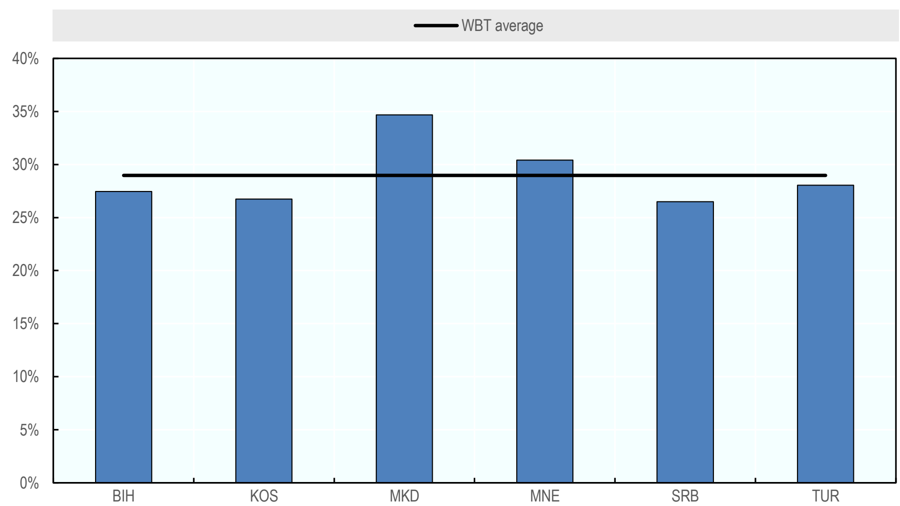
World Bank (2018), *Resolving Insolvency: Good Practices*, World Bank Doing Business website, http://www.doingbusiness.org/data/exploretopics/resolving-insolvency/good-practices (accessed on 27 July 2018). [28]

World Bank (2018), *Resolving Insolvency: Why it Matters*, World Bank Doing Business website, http://www.doingbusiness.org/en/data/exploretopics/resolving-insolvency/why-matters. [22]

World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*, World Bank Group, Washington, DC, http://www.doingbusiness.org/en/reports/global-reports/doing-business-2018. [2]

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

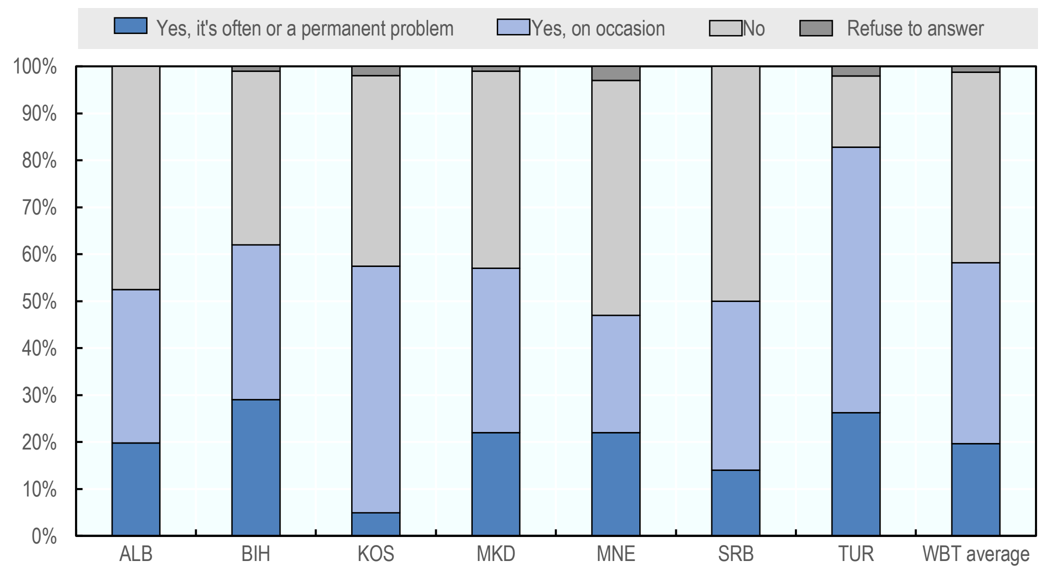
Figure 2.A.1. Fear of failure among entrepreneurs in the WBT region before starting a business



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

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

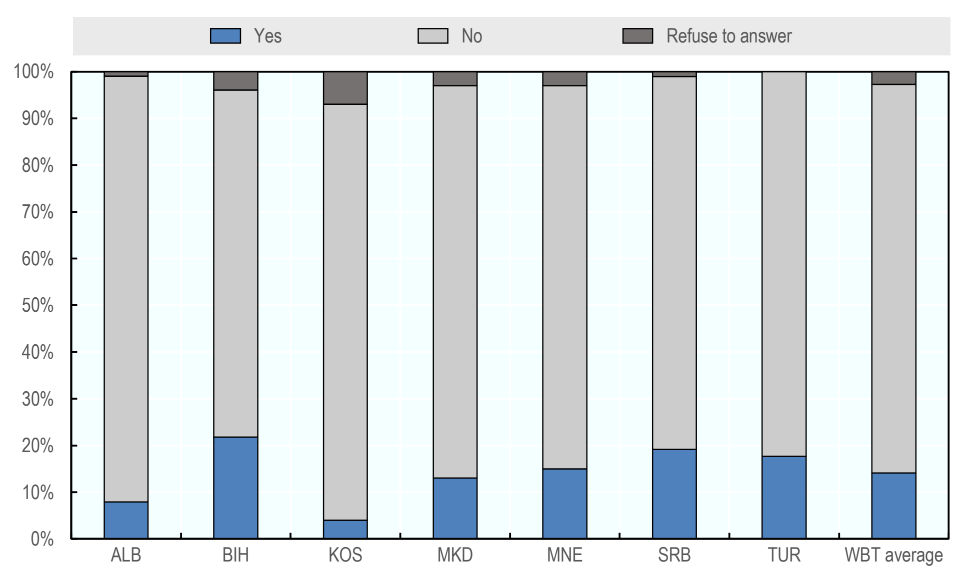
Figure 2.A.2. Has the problem of late payment by other private companies caused your business to experience cash-flow problems? (2017)



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

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

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

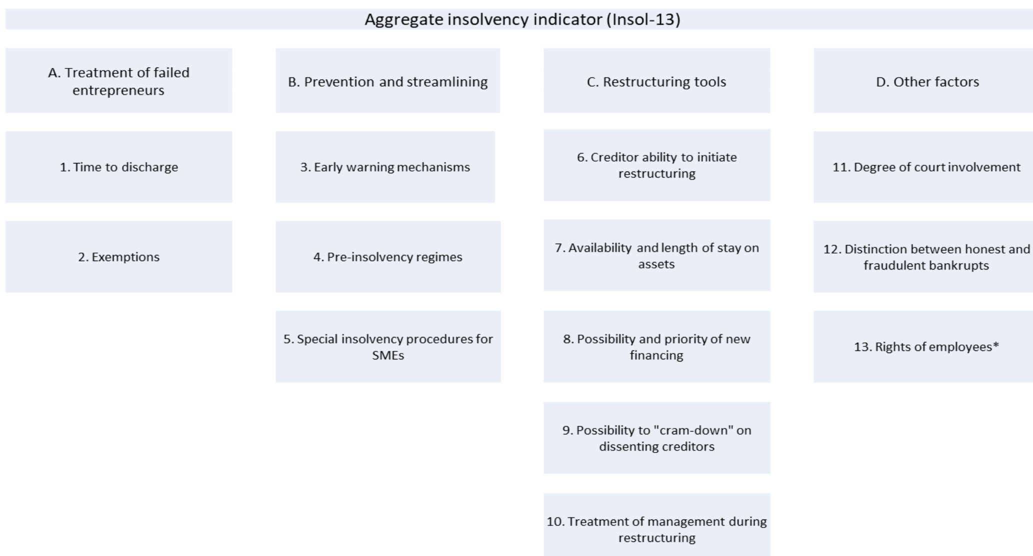


Source: OECD calculations based on Balkan Barometer 2017 data (RCC, 2017[10]).

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

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

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



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

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

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

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

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

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

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

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

Key findings

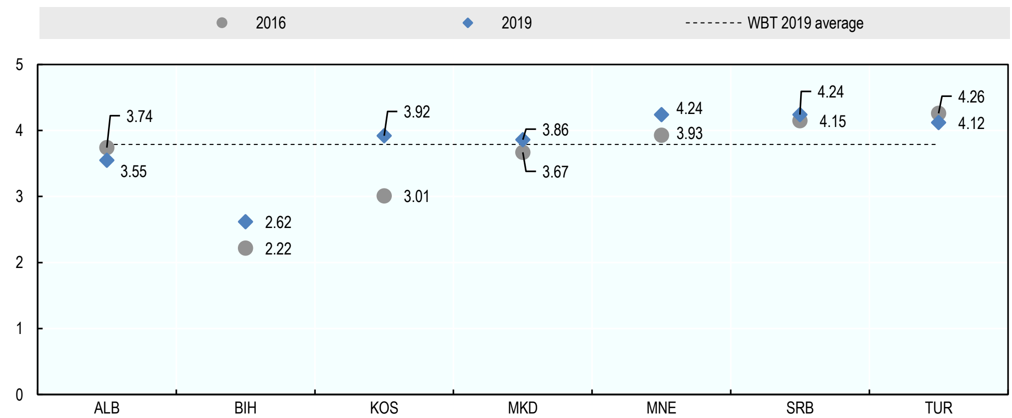
- **Institutional frameworks for SME policies have been established in most of the Western Balkan and Turkey (WBT) economies**. The economies have well-developed SME strategies in place, they are implementing these strategies according to plan and most of the economies are monitoring them regularly.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

Comparison with the 2016 assessment scores

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

[*] This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Figure 3.1. Overall scores for Dimension 3 (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

The region overall has made incremental progress between the two assessments, as confirmed by the continuous, if moderate, implementation of recommendations in the last SME Policy Index (Table 3.1).

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

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

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

Introduction

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

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

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

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

Assessment framework

Structure

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

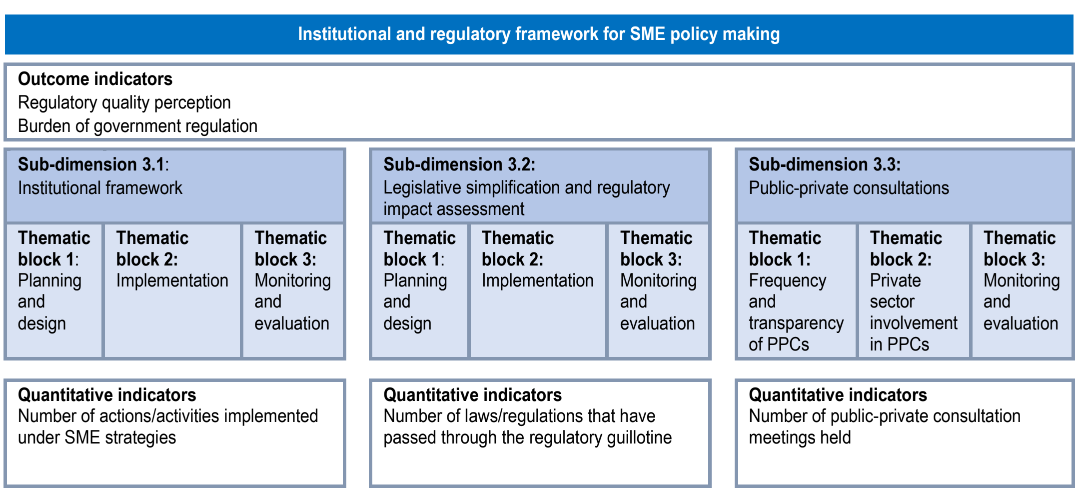
- **Sub-dimension 3.1: Institutional framework** examines how strong and business-enabling the institutional framework for SME policy making is. In particular, it looks at a set of inter-related institutional mechanisms that are required to create a favourable business environment.

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

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

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

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



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

Key methodological changes to the assessment framework

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

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

Table 3.2. Key changes in the composition of Dimension 3

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

Analysis

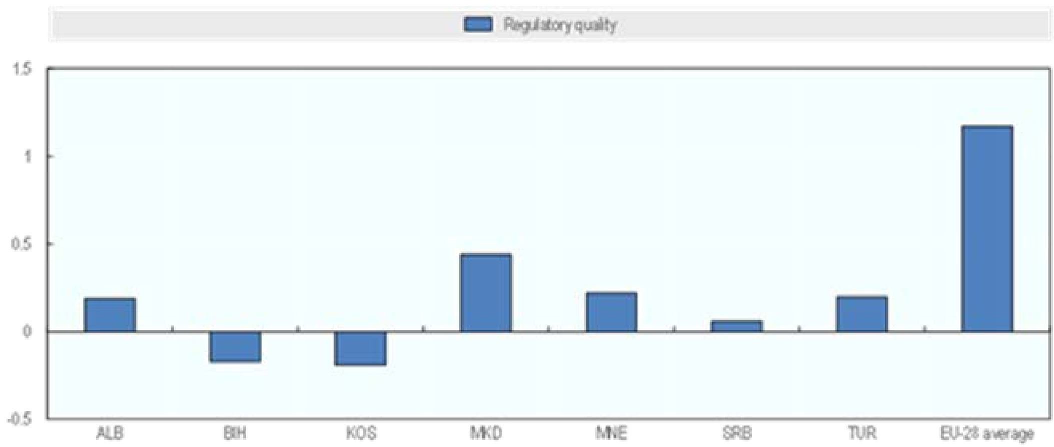
Performance in institutional and regulatory framework for SME policy making

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

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

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

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

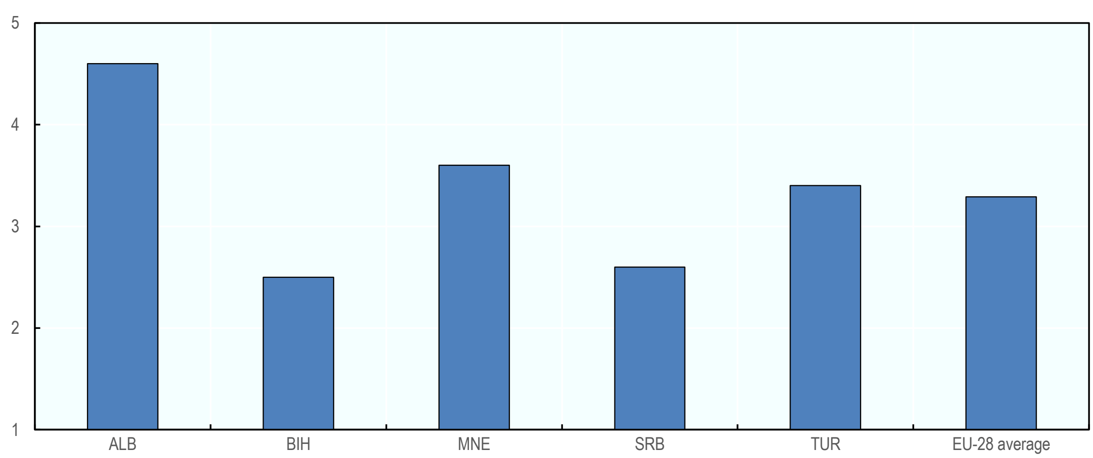


Note: Data ranged from approximately -2.5 (weak) to +2.5 (strong) governance performance. Last available data are from 2016.
Source: World Bank (2018[5]), *Worldwide Governance Indicators*, http://info.worldbank.org/governance/wgi/index.aspx#home.

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

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

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



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

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

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

Institutional framework (Sub-dimension 3.1)

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

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

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

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

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

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

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

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

However, there have been delays in adopting these strategies, causing SME policy implementation to stagnate at times. It took Montenegro three years to adopt its new strategy (in July 2018). Nevertheless, SME support activities were carried out as part of the accompanying action plan spanning 2015-2018. In North Macedonia, the latest SME strategy was developed in 2016 – three years after the previous one had expired – but it took two years to fully adopt.[2] Kosovo's new SME strategy had not been adopted at the time of writing.

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

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

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

There have been some delays in publishing regular reports on SME strategy implementation in the region. And while economies throughout the region regularly conduct monitoring, they need to step up their evaluation efforts, which are largely non-existent.

SME definitions are aligned with the EU ones and consistently used

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

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

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

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

SME data collection could be further improved

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

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

Table 3.4. Statistics collected in the WBT economies

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

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

Measures to address the informal economy lack co-ordination

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

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

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

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

The way forward for the institutional framework

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

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

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

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

This section examines efforts to review, simplify and eliminate redundant, burdensome or simply outdated business-related legislation. It then considers whether *ex-ante* mechanisms are in place to assess the impact of new regulations on SMEs (RIA), and whether SME tests are embedded into its methodology. The evaluation covers all the stages of policy development: planning, implementation, and monitoring and evaluation (Table 3.5).

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

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

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

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

All the economies have made regulatory reform efforts to simplify legislation

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

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

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

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

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

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

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

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

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

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

In Turkey, the legislative simplification measures were included in the Action Plan of the Programme for Reducing the Informal Economy (2014-2018), as well as in the actions undertaken by the Prime Minister's Office. In particular, in 2014, the Office of the Prime Minister launched the Reduction of Bureaucracy and Simplification of Legislation Initiative (BAMS). As a result of BAMS, 348 amendments have been made to business-related regulations, 3 148 documents have been eliminated from various application processes and a number of business-related services have been moved to an electronic medium. During the assessment period, the efforts under the BAMS initiative mainly concentrated on digitalising public services at the national and local level with a view to reducing the administrative burden on businesses.

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

Regulatory impact analyses are not consistently institutionalised or practised

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

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

In Albania, following unsuccessful attempts between 2009 and 2014, a requirement to conduct RIA for major regulations was introduced in April 2018. To start the RIA implementation, the Albanian Council of Ministers selected two laws for which the full RIA was practised. In 2018, a total of 11 RIAs were carried out. In Turkey, a full RIA is formally required for business-related legislation whose probable annual effects are above TRY 30 million (EUR 5.1 million). A partial assessment is required for draft legislation which falls below this threshold. However, as a previous OECD study has shown, in practice RIA is not conducted regularly, and even those draft laws with expected effects larger than TRY 30 million lack appropriate impact analyses (OECD/SIGMA, 2017[17]). The same study also showed that there was no evidence of a systematic review of policy proposals against set government priorities or of the quality of RIA performed by the initiating ministry (OECD/SIGMA, 2017[17]). During the reference period the RIA thresholds were changed. They had been set at TRY 10 million (EUR 1.7 million), before they were raised to the current level in 2016. This change is expected to reduce the already relatively low frequency of RIAs in Turkey.

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

The way forward for legislative simplification and regulatory impact analysis

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

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

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

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

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

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

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

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

- **Compliance costs** – created by the obligation to pay fees or duties, and costs created by the obligation to adapt the nature of the product/service and/or production/service delivery process to meet economic, social or environmental standards (e.g. the purchase of new equipment, training of staff, additional investments).

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

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

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

Box 3.3. Denmark's Business Forum for Better Regulation

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

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

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

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

Public-private consultations (Sub-dimension 3.3)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The private sector mostly participates in PPCs via business associations

Throughout the region, participation in PPCs is open to all interested participants. SMEs mostly take part in consultations through business associations, namely chambers of commerce. SMEs have a formal right to contribute to meeting agendas and usually have enough time to provide their feedback on the piece of legislation that is subject to consultation – except for cases of urgent adoption of legislation. Through the business associations, SMEs can even formally call for exceptional consultative meetings if deemed necessary, although this is rarely observed in practice. For instance, in the Republika Srpska, the business community took the initiative to propose certain measures to the government to improve the business environment. These proposals were taken into full consideration when developing the Republika Srpska's Economic Reform Programme 2017-2019.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Box 3.5. Monitoring PPCs in Kosovo

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

In 2017, the Office for Good Governance established co-ordination structures involving public consultation co-ordinators in each ministry. It also carried out capacity-building activities, such as two rounds of on-the-job training on PPCs, using the electronic PPC platform and numerous information workshops. Introducing the electronic public consultation platform was one of the most important steps the government has taken to facilitate PPCs.

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

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

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

The way forward for public-private consultations

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

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

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

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

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

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

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

Conclusions

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

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

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

The recommendations put forward in this chapter address policy reform priorities for building advanced institutional and regulatory frameworks in the WBT economies. They aim to improve the reliability of SME policies and ensure that they address the needs of SMEs.

Notes

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

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

[3] For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

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

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

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

References

Business Forum for Better Regulation (2018), *Business Forum for Better Regulation website*, http://www.enklereregler.dk (accessed on 28 September 2018). [22]

CDM (2017), *Biznis karavan u Plužinama: Zajednički unaprijediti infrastrukturu (Business caravan in Plužine: Jointly improve the infrastructure)*, Cafe del Montenegro website, https://www.cdm.me/ekonomija/biznis-karavan-u-pluzinama-zajednicki-unaprijediti-infrastrukturu (accessed on 20 September 2018). [35]

CORD (2018), "Improvement of business environment in Serbia", *CORD* February 2018, http://cordmagazine.com/events/after-work/improvement-business-environment-serbia/ (accessed on 25 August 2018). [12]

Council of Ministers BiH (2018), *Council of Ministers of Bosnia and Herzegovina Holds its 142nd Session*, Council of Ministers of Bosnia and Herzegovina, http://www.vijeceministara.gov.ba/saopstenja/sjednice/saopstenja_sa_sjednica/default.aspx?id=28373&langTag=en-US (accessed on 7 November 2018). [27]

EBRD (2014), *"BEEPS V 2012-2014" Business Environment and Enterprise Performance Survey Dataset*, European Bank for Reconstruction and Development, http://ebrd-beeps.com/. [9]

EC (2017), *Better Regulation Tool Box: Tool #22. The "SME Test"*, European Commission, Brussels, https://ec.europa.eu/info/better-regulation-toolbox_en. [19]

EC (2017), *Evaluation of the Application of the Think Small First Principle in EU Legislation and Programmes*, European Commission, DG Enterprise and Industry, Brussels, https://publications.europa.eu/en/publication-detail/-/publication/0d2d1386-4086-4849-85fb-0bd541509886/language-en. [3]

EC (2017), *Inception Impact Assessment*, European Commission, Brussels. [7]

EC (2017), *SBA Fact Sheet: Albania*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/albania_sba_fs_2017.pdf. [30]

EC (2017), *SBA Fact Sheet: Montenegro*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/montenegro_sba_fs_2017.pdf. [31]

EC (2017), *SBA Fact Sheet: Serbia*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/serbia_sba_fs_2017.pdf. [33]

EC (2017), *SBA Fact Sheet: The Former Yugoslav Republic of Macedonia*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/the_former_yugoslav_republic_of_macedonia_sba_fs_2017.pdf. [36]

EC (2017), *SBA Fact Sheet: Turkey*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/turkey_sba_fs_2017.pdf. [32]

EC (2014), *2014 Survey: Summary of Best Practices*, European Commission, http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetailDoc&id=26386&no=6. [20]

EC (2008), *Think Small First: A Small Business Act for Europe*, European Commission, Brussels. [1]

EC (2007), *Models to Reduce the Disproportionate Regulatory Burden on SMEs Report of the Expert Group*, European Commission, Brussels, http://ec.europa.eu/growth/content/models-reduce-disproportionate-regulatory-burden-smes-0_en. [2]

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

Ministry of Justice (2018), *SLOV-LEX*, Ministry of Justice, Republic of Slovakia, https://www.slov-lex.sk (accessed on 8 October 2018). [29]

Ministry of the Economy (2018), *National Small and Medium-sized Enterprise Strategy (2018-2023)*, Ministry of the Economy, Republic of North Macedonia, Skopje, http://economy.gov.mk/Upload/Documents/Strategija%20za%20MSP%20-%20finalna%20verzija%2003%2004%202018%20.pdf. [25]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, Competitiveness and Private Sector Development, OECD Publishing, Paris, https://doi.org/10.1787/9789264298576-en. [16]

OECD (2018), *OECD Economic Surveys: Turkey (Overview)*, OECD, Paris, http://www.oecd.org/eco/surveys/Turkey-2018-OECD-economic-survey-overview.pdf. [10]

OECD (2017), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy (draft)*, OECD Publishing, Paris, http://www.oecd.org/gov/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm. [21]

OECD (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/9789264254473-en. [4]

OECD/SIGMA (2017), *Monitoring Report: The Principles of Public Administration, Turkey*, OECD, Paris, http://www.sigmaweb.org/publications/Monitoring-Report-2017-Turkey.pdf. [17]

OECD/SIGMA (2017), *Monitoring Report: The Principles of Public Administration: Bosnia and Herzegovina 2017*, OECD, Paris, http://www.sigmaweb.org/publications/Monitoring-Report-2017-Bosnia-and-Herzegovina.pdf. [18]

OECD/SIGMA (2017), *Monitoring Report: The Principles of Public Administration: Kosovo**, OECD, Paris, http://sigmaweb.org/publications/Monitoring-Report-2017-Kosovo.pdf. [24]

OECD/SIGMA (2017), *Monitoring Report: The Principles of Public Administration: Montenegro*, OECD, Paris, http://www.sigmaweb.org/publications/Monitoring-Report-2017-Montenegro.pdf. [14]

OECD/SIGMA (2017), *Monitoring Report: The Principles of Public Administration: The Former Yugoslav Republic of Macedonia*, OECD, Paris, http://www.sigmaweb.org/publications/Monitoring-Report-2017-the-former-Yugoslav-Republic-of-Macedonia.pdf. [13]

OECD/SIGMA (2017), *Monitoring Report: The Priniciples of Public Administration: Serbia*, OECD, Paris, http://www.sigmaweb.org/publications/Monitoring-Report-2017-Serbia.pdf. [15]

Portal Analitika (2018), *Povećan broj aplikacija zahvaljujući "Biznis karavanu" (Increased number of applications thanks to "Business Caravan")*, http://portalanalitika.me/clanak/303651/povecan-broj-aplikacija-zahvaljujuci-biznis-karavanu (accessed on 20 September 2018). [34]

Regulatory Policy Committe (2014), *The Regulatory Policy Committee: Guidance for Businesses and Civil Society Organisations*, GOV.UK, https://www.gov.uk/guidance/the-regulatory-policy-committee-guidance-for-stakeholders. [37]

UEAPME (2017), *Evaluation and Impact Assessment of the Recommendation 2003/361/EC Concerning the Ddefinition of Micro, Small and Medium-Sized Enterprises*, UEAPME: The European crafts and SME employers' association, Brussels. [8]

USAID/NALED/URP (2018), *Reform of Lump-Sum Taxation System*, National Alliance for Local Economic Development, http://naled.rs/en/files/PPD_on_reform_of_lump_sum-taxation_system.pdf. [23]

Vijesti (2017), *Babić: Biznis karavan daje rezultate (Babić: Business Caravan gives results)*, Vijesti Online, http://www.vijesti.me/vijesti/babic-biznis-karavan-daje-rezultat (accessed on 20 September 2018). [26]

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

World Bank (2018), *Worldwide Governance Indicators*, World Bank, Washington, DC, http://info.worldbank.org/governance/wgi/index.aspx#home. [5]

World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*, World Bank Group, Washington, DC, http://www.doingbusiness.org/en/reports/global-reports/doing-business-2018. [11]

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

This chapter assesses the availability, quality and responsiveness of the public services available for small and medium-sized enterprises (SMEs) in the Western Balkans and Turkey. It starts by outlining the assessment framework, then presents the analysis of Dimension 4's four sub-dimensions: 1) digital government services for enterprises, which measures the extent to which SMEs can interact with public institutions through the use of digital technologies; 2) company registration, which focuses on the procedures necessary to register a company; 3) business licensing, which considers the complexities of the process of obtaining a licence; and 4) tax compliance procedures for SMEs, which examines whether tax systems are adapted to SMEs' unique needs. Each sub-dimension section makes specific recommendations for increasing the capacity and efficiency of the operational environment for SMEs in the Western Balkans and Turkey.

Key findings

- **All governments in the Western Balkans and Turkey (WBT) have established electronic portals allowing businesses to complete various services on line**. These services include filing social security returns, pensions services, services related to the cadastre (property titles) and reporting enterprise statistics. Nevertheless, the range of services available on line varies across the economies and not all processes can be fully completed on line.
- **One-stop shops have been established in all seven assessed economies**, allowing businesses and administrations to save time and cost during the registration process.
- **The assessed economies have made a start in improving data exchanges among state institutions**. However, their systems connect only a handful of institutions. As a result, various public institutions need to repeatedly ask enterprises for the same information, increasing the administrative burden on SMEs.
- **Progress has stagnated in reducing the barriers to starting a business**. Overall, no significant reductions were recorded during the assessment period to the time and cost of starting a business.
- **All WBT economies apply clear procedures when granting a licence.** Yet most lack a centralised approach, with SMEs having to navigate a fragmented system involving different authorities in order to complete the necessary procedures.
- **All WBT economies have tax simplifications targeting SMEs.** Most notably, they have all established a threshold below which SMEs are not obliged to register for and remit value-added tax.

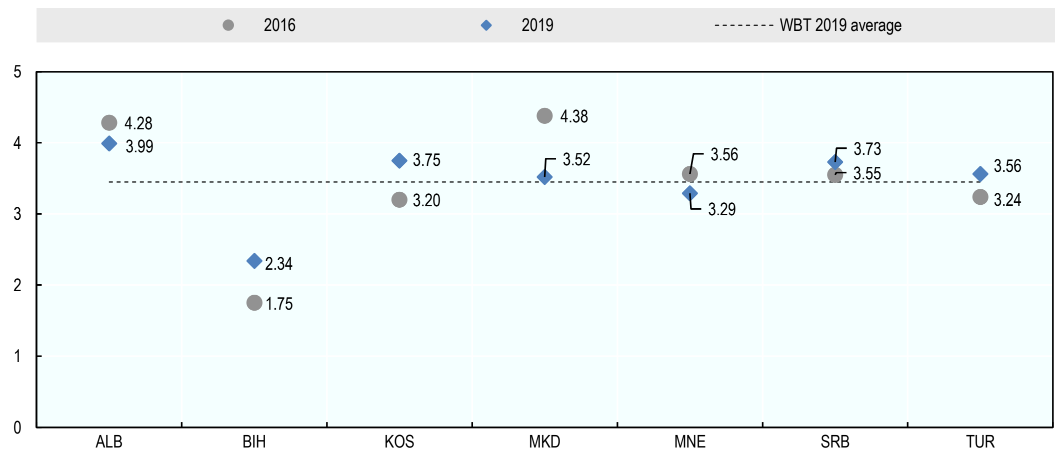
Comparison with the 2016 assessment scores

Progress in the operational environment for SMEs dimension varies across the WBT region (Figure 4.1). The region achieved an average score of 3.44 in 2019, comparable to its performance of 3.45 in 2016 (OECD, 2016). Albania has become the best performer of the seven assessed economies followed by Kosovo* and Serbia.

Overall, the WBT economies perform best in company registration, followed by business licensing. In contrast, the scores achieved in digital government services for enterprises show that there is still room for improvement particularly on the monitoring and evaluation of their policy frameworks.

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo’s declaration of independence.

Figure 4.1. Overall scores for Dimension 4 (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus of implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

The 2016 assessment (OECD/ETF/EU/EBRD/SEECEL, 2016) made recommendations for providing better advice and guidance to governments, as well as tools that would make the public administration more responsive to SME needs. The advances made by some economies are reflected in the degree to which they have implemented these recommendations.

The region's progress on the 2016 recommendations is summarised in Table 4.1.

Table 4.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 4

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Continue to streamline the company registration process	- In Bosnia and Herzegovina, the Republika Srpska (RS) has established a one-stop shop where businesses can complete all the necessary registration procedures. The Federation of Bosnia and Herzegovina (FBiH) has started to establish a one-stop shop, which is expected to be fully up and running by the end of 2019.[1] - Albania and Kosovo have now launched an online company registration portal. - Reductions in the overall time, number of procedures as well as costs have stagnated since 2016. - Turkey has removed the paid-in minimum capital required to start a business. - Kosovo has reduced the company registration time by almost half in the last two years by simplifying the process of registering employees.	Advanced
Expand e-government beyond basic services	- All economies have expanded the number of e-government services offered. - In Kosovo the government has updated the electronic signature framework to align it with the EU 910/2014 Electronic Identification, Authentication and Trust Services Regulation[2] (eIDAS) on electronic signature. - In Bosnia and Herzegovina e-signatures have been used in the RS since 2017 for the electronic filing of tax returns.	Moderate

Deepen efforts to review and streamline licence procedures and system	- The Republic of North Macedonia, Turkey and Serbia have started pilot projects to centralise the licensing procedures; however, these projects are still being implemented. - In Bosnia and Herzegovina, the RS established the Registry of Authorizations/Approval in 2018, which is the single contact point for licensing procedures. - In Albania, the government has simplified licensing procedures following the Council of Ministers' decision adopted in mid-2017.	Limited
Introduce or extend online reporting of enterprise statistics	- All economies have established an interoperability system among different public institutions; however, there has been no progress on the scope of data exchange, which remains limited to only a handful of institutions.	Limited
Promote e-government services to SMEs	- All governments systematically promote e-services to all business when new services are available.	Advanced

Introduction

SMEs interact with public institutions at the local, regional or national levels at all stages of their life cycle – from registering a company and obtaining a business licence to filing and paying taxes. The ease or difficulty of these interactions determines the operational environment which SMEs have to navigate. Public institutions that impose lengthy or costly procedures and complex or opaque requirements on businesses have adverse impacts on SMEs' abilities to operate, to take advantage of market opportunities efficiently and to grow.

Where SMEs and aspiring entrepreneurs encounter an overly burdensome operational environment, they may become discouraged and choose to abandon their business endeavours, find a more favourable economy to do business in, or decide to operate in the informal economy. It is vital for governments to understand the specific challenges that SMEs might encounter when interacting with public institutions, in order to develop appropriate solutions to ensure a smoother and healthier business experience. Due to their size and limited human and financial resources, SMEs are in a far more tenuous position than larger companies, which have greater resources and access to public institutions and political decision makers (Centre for European Economic Research, 2017; EC, 2007).

Economies that adopt policies which establish a favourable operational environment for SMEs help reduce their time and cost burdens. The results of these policies are tangible when executing routine procedures or when searching for information for their businesses. Such policies can also boost efficiency and help save public money, by decreasing the time government employees spend on handling non-automated repetitive tasks as well as general business queries.

In recent years, governments in general have increasingly tapped into the opportunities offered by information and communication technologies (ICT) to improve the operational environment for SMEs. ICT enables government institutions to digitalise their public services to SMEs using e-government portals. Establishing these portals while also simplifying procedures for routine services for SMEs create considerable benefits for both SMEs and public institutions alike. Online one-stop shops and open government data-publishing initiatives are examples of productive digital government policies for SMEs. In addition to providing efficiency gains for both SMEs and public authorities, such ICT solutions also promote transparency, accountability and inclusiveness, and discourage corruption.

Assessment framework

Structure

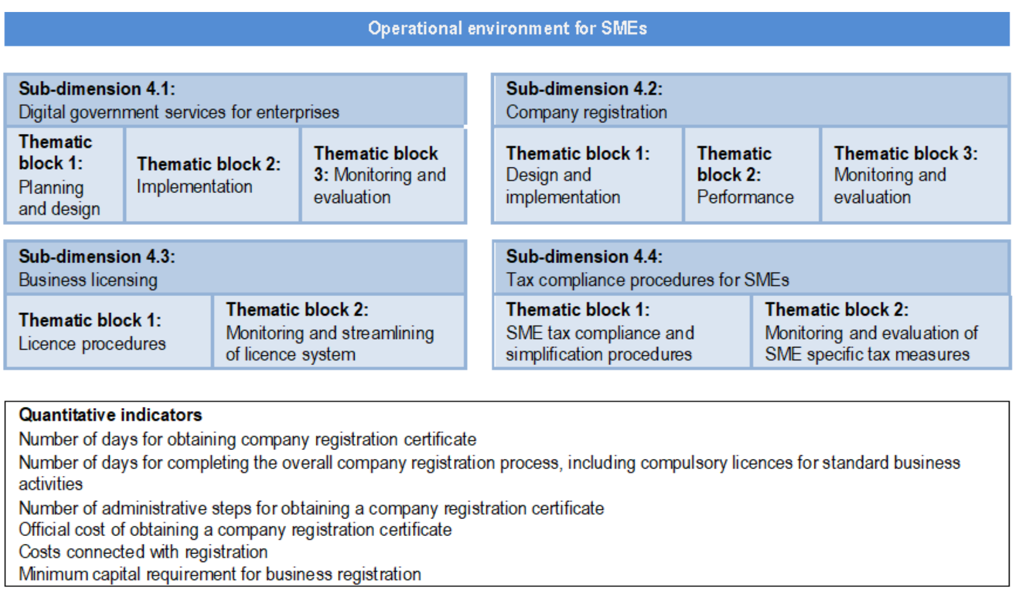
While Dimension 3 (institutional and regulatory framework for SME policy making) looks at the importance of a policy framework that considers the needs and best interests of SMEs, Dimension 4 focuses on the operational environment in which SMEs operate. This dimension is designed around four sub-dimensions:

- **Sub-dimension 4.1: Digital government services for enterprises** captures the extent to which interactions between entrepreneurs and public institutions are carried out through electronic or digital means, e.g. electronic filing for taxes, electronic reporting of enterprise statistics or adopting the "once-only" principle for information provided by enterprises.

- **Sub-dimension 4.2**: **Company registration** focuses on the procedures necessary to register a company, while **Sub-dimension 4.3: Business licensing** evaluates the process of obtaining a licence or permit. Both sub-dimensions analyse the complexity and length of the procedures involved, and assess whether systems have been simplified through various policy tools and instruments, such as one-stop shops, information portals, digital platforms, written guides or centralised co-ordination bodies.
- **Sub-dimension 4.4: Tax compliance procedures for SMEs** assesses whether governments have introduced policies to make it easy for SMEs to comply with taxes, and gauges whether tax systems are adapted to SMEs' vulnerabilities and capacities.

Each sub-dimension evaluates the design, implementation, and monitoring and evaluation of the legislative framework, as well as the procedures rolled out by governments to further enhance existing systems. Figure 4.2 shows how the sub-dimensions and their constituent indicators make up the assessment framework for this dimension.

Figure 4.2. Assessment framework for Dimension 4: Operational environment for SMEs



Note: Quantitative indicators are a proxy for the implementation of policies and form part of the assessment framework, affecting the overall score.

The assessment was carried out by collecting qualitative data with the help of questionnaires filled out by governments, as well as face-to-face interviews with SME owners and managers.[3] During the interviews, entrepreneurs were asked to describe their experience and satisfaction with public services, particularly focusing on the availability of relevant information and its usefulness. The insights gathered from these interviews have shed light on the degree of effectiveness of public services, as well as the challenges experienced by SMEs in this area. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Key methodological changes to the assessment framework

Since the publication of the *SME Policy Index 2016* (OECD/ETF/EU/EBRD/SEECEL, 2016), some changes have been introduced to the assessment framework. Sub-dimension 4.1 (digital government services for enterprises) has been revised according to the OECD *Recommendation of the Council on Digital Government Strategies* (OECD, 2014), and certain services (e-pensions, e-procurement, e-cadastre) have been added to the assessment scope. New questions focusing on monitoring and evaluation mechanisms have been included in Sub-dimension 4.2 (company registration). Finally, a new sub-dimension (4.4 – tax compliance procedures for SMEs) has been added, which focuses on the availability of SME-specific tax compliance schemes. This was added at the request of the assessed economies, to better reflect the complexity of the overall operational environment for SMEs; however, as it is a pilot analysis, this sub-dimension has not been included in the scoring. For a summary of the changes introduced in the current assessment, see Table 4.2.

Table 4.2. Key changes in the composition of Dimension 4

Sub-dimension	Key changes since 2016 assessment
Sub-dimension 4.1: Digital government services for enterprises	Expansion and revision of the assessment framework based on the OECD *Recommendation on Digital Government Strategies*.
Sub-dimension 4.2: Company registration	Introduction of an assessment of monitoring and evaluation mechanisms for company registration procedures.
Sub-dimension 4.4: Tax compliance procedures for SMEs	New sub-dimension added to the assessment.

Other sources of information

Data from the World Bank's 2019 *Doing Business* report were used to measure and compare performance, including the complexity and cost of procedures involved in starting a business in the seven assessed economies (World Bank, 2018). The World Bank indicators related to the costs of registering a business, the number of days to obtain a company registration certificate and minimum capital requirements were used to compare the company registration processes across economies and also over time.

The analysis was also complemented by data collected by the Regional Cooperation Council: the statistical information included in the Balkan Barometer 2017 (GfK, 2017) substantiated the understanding of the situation in the region and perceptions of the environment for SMEs in the assessed economies.

Analysis

Digital government services for enterprises (Sub-dimension 4.1)

Providing digital services can significantly reduce transaction costs for SMEs, liberating human and financial resources to enhance competitiveness. Efficient digital services allow for a greater use of communication and feedback channels, and create a more participatory approach to service provision. Their use can help to develop better-tailored public services which correspond to both users' and entrepreneurs' needs. To ensure that they reduce the administrative burden on businesses and to make the administration more effective, governments need to base e-government services on the "once-only" principle: authorities should not ask businesses for information that is already in the possession of another public authority. Digital services also reduce the scope for informal activities, by automating processes and providing open information, thus increasing transparency and accountability (EC, 2017) (OECD, 2014).

This section assesses the extent to which SMEs can interact with public institutions through the use of digital technologies. It does so based on three thematic blocks (Table 4.3): the first – planning and design – analyses whether or not governments have adopted a digital strategy or an action plan to enhance their digital government services. The second – implementation – explores the extent to which digital government services, open government measures and data exchange platforms have been introduced. The third – monitoring and evaluation – reviews whether monitoring and evaluation of e-government services are established within the WBT.

Overall, the WBT economies have performed much better in the planning and design than in monitoring and evaluation, achieving a solid legal framework and concrete indications of effective policy implementation. Turkey receives the highest score followed by Albania and Serbia.

Table 4.3. Scores for Sub-dimension 4.1: Digital government services for enterprises

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	4.39	2.25	4.20	4.39	4.29	4.25	4.72	**4.07**
Implementation	3.40	1.97	3.57	3.63	3.80	3.69	4.20	**3.47**
Monitoring and evaluation	3.67	1.00	2.47	1.00	1.40	2.33	2.47	**2.05**
Weighted average	**3.76**	**1.81**	**3.48**	**3.20**	**3.35**	**3.52**	**3.92**	**3.29**

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

Most WBT economies have made progress in planning and designing digital government tools

Since the 2016 assessment, all economies have adopted a digital strategy or an action plan in order to enhance their digital government services. These changes are in line with the objectives for developing a digital agenda laid out in the chapter on digital society in the Regional Strategy for Southeastern Europe 2020 (Regional Cooperation Council, 2013). Overall, it appears that the seven assessed economies have chosen between two different approaches for design and planning: either a cross-cutting horizontal digital strategy (e.g. Albania); or a thematic strategy, where each separate ministry introduces an e-services platform as one of the aims of their action plans (e.g. Bosnia and Herzegovina). In both cases, evidence shows that WBT governments are continuing to work towards digitalising and reforming their processes to ensure public institutions are more inclusive, effective, accountable and transparent.

Since the 2016 assessment most WBT economies have made progress in planning and designing digital government tools, with the exception of Bosnia and Herzegovina where progress has stagnated. The most significant improvement has been in Turkey, thanks to the introduction of the National e-Government Strategy and Action Plan 2016-2019 (Republic of Turkey, 2016). The Information Society Strategy and Action Plan 2015-2018 (Republic of Turkey, 2015), which falls under this strategy, includes the development of a cloud programme for SMEs as one of its objectives. In Kosovo, the positive trend is mainly due to the implementation of the Strategy for Electronic Governance 2009-2015 (Republic of Kosovo, 2009) and the Public Administration Reform Strategy 2015-2020 (Republic of Kosovo, 2015), which cover some parts of e-government; however, Kosovo's approach is mostly focused on the administration in general rather than SMEs in particular.

The implementation of e-signature is extending digital government services for SMEs

In terms of implementing government e-services, the assessment shows that all economies have significantly improved their range of digital government services for filing tax returns, social security returns and pensions; for reporting statistics; and for cadastre services. With the exception of Bosnia and Herzegovina, most of these services have been digitalised in the assessed economies. However, users cannot always fully complete the required steps on line, having to finish parts of the procedures off line (e.g. buying a stamp or obtaining an official's original signature).

Fully implemented e-signatures or digital authentication frameworks are crucial in communication with government, allowing SMEs to complete all e-services on line, saving them time and money. All WBT economies have adopted an e-signature framework, and these are currently being updated to align them with the EU 910/2014 eIDAS Regulation on electronic signature. However, the extent of their implementation varies (OECD, 2018). In Montenegro, Serbia and Turkey, e-signatures or digital authentications are only available for a limited number of services, while in Albania and North Macedonia they are available for all services. In Kosovo, the government is still working on the implementation of digital authentication services. In Bosnia and Herzegovina, e-signatures are not yet generally available to SMEs, although since 2017 e-signatures have been used for filing tax returns on line in the Republika Srpska.

Open government data initiatives are emerging

Open government initiatives benefit a multiplicity of stakeholders in both the public and private sectors. Open government data (OGD) increases transparency, provides support in tackling corruption, and enhances the quality of public services for SMEs (Open Government Partnership, 2018). SMEs can also add substantial economic value to government data. By capitalising on and reusing public data, SMEs can design new products and services as well as drive innovation within their business models. Nevertheless, limited human and resource capacity can undermine SMEs' access to data or sophisticated analytical tools to process and analyse large proprietary datasets. As a result, SMEs are likely to benefit most from open data initiatives that require fewer resources to use.

Of all the assessed economies, Turkey and Serbia have made the most concrete steps towards OGD during the assessment period. In Turkey, OGD has been included for the first time in a national strategy: the 2016-19 National E-Government Strategy and Action Plan. The strategy mentions developing actions to promote the reuse of OGD for economic value creation.

In October 2017, Serbia launched the National Open Data portal as a part of the Open Data – Open Opportunities project, co-ordinated by the United Nations Development Programme Serbia (Box 4.1). Since its launch, 22 public institutions have made

85 datasets publicly available through the portal, comprising 245 individual files. However, there is no evidence of how many SMEs have used this information.

Box 4.1. Serbia's Open Data – Open Opportunities project (2017-19)

The Open Data – Open Opportunities project aims to support the development of an open data ecosystem in Serbia that will catalyse better government services to citizens and generate economic growth. The project, initiated in 2017, is implemented by the United Nations Development Programme (UNDP) in partnership with the Office for Information Technologies and E-Government, with financial support from the World Bank and the United Kingdom's Good Governance Fund.

The project follows the recommendations set out in the Open Data Readiness Assessment conducted by UNDP and the World Bank, and is in line with the Serbian Strategy for e-Governance Development 2015-18 and its action plan.

The goal is to establish the National Open Data Portal (www.data.gov.rs), a central place where data from state authorities will be aggregated and made available to citizens, companies and NGOs. Its expected benefits are:

- **To increase accountability and transparency in government administration** by creating an adequate legal framework, and by enabling services such as anti-corruption apps and websites to use open data to make officials' work and decisions more visible, leading to greater accountability.
- **To improve the business climate by spurring entrepreneurship and encouraging private-sector development**: as more small companies emerge, more useful information can be extracted from the business ecosystem, creating new and knowledge-intensive business services.

As part of the project, the Office of Information Technology and E-Government organised the first ever Open Data Week in March 2018 in various cities across the country, including Belgrade, Novi Sad, Inđija, Šabac, Vršac, Valjevo and Subotica. The workshops gathered representatives from start-ups, SMEs, researchers and other relevant stakeholders. They informed participants about the information available through the National Open Data Portal and taught them how to use it.

Future key activities envisaged under this project include developing the knowledge and skills of government employees in data processing; stimulating co-operation among the public, private and civil sector; and supporting the use of open data and data literacy

Note: The Open Data Readiness Assessment for Serbia can be found at www.rs.undp.org/content/dam/serbia/Publications and reports/English/UNDP_SRB_ODRA ENG web.pdf.
Source: UNDP (Open Data - Open Opportunities, 2018), *Open Data – Open Opportunities*, www.rs.undp.org/content/serbia/en/home/projects/opendata.html.

Not much progress on expanding open government data has been observed in the remaining economies of the Western Balkans. Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia participate in the Open Government Partnership, which is a multilateral initiative ensuring concrete OGD commitments from governments. However, the economies are still in the early stages of implementing the required legal frameworks, and do not collect any data on the use of OGD by SMEs.

Although Kosovo does not participate in the Open Government Partnership, it has committed itself to improving open data by adopting the Open Data Charter in 2016.

Platforms exist for data exchange among public institutions, but are incomplete

Interoperability systems that allow data sharing among government agencies help the public administration deliver services in a more efficient, transparent and less costly manner. A co-ordinated e-government system supports a more SME-friendly environment by allowing companies to share information with several institutions at the same time, thus reducing the administrative burden of repetitive work (see Box 2.2).

The importance of interoperability is also underlined in the European Interoperability Framework (EIF) network, which was adopted by the European Commission in 2017. The EIF makes 47 concrete recommendations for how public administrations can improve their interoperability activities, establish cross-organisational relationships, streamline processes supporting end-to-end digital services, and ensure that both existing and new legislation do not compromise interoperability efforts (EC, 2017). Currently, North Macedonia, Serbia and Turkey belong to the EU EIF, which helps economies establish the proper legal framework for fully operational interoperability networks.

All the WBT economies have platforms which allow data exchange among public institutions. However, none of them cover all public institutions: in each economy fewer than half of the public institutions share information with other institutions. The information is usually shared only among a few institutions and tax authorities. For instance, in Montenegro, an electronic data exchange information system that started off with the Government Service Bus initiative is yet to integrate the Central Register of Population, Central Register of Business Entities, Register of Children in Educational Institutions, pension and disability fund registers, Tax Administration registers and Employment Agency records. This integration process is expected to be finished by the end of 2018.

Monitoring of digital government services remains weak or non-existent

Ineffective monitoring presents risks and challenges to the use and implementation of digital services which can lead to inefficient spending, duplicated effort and lack of interoperability.

Monitoring and evaluating e-government services is not yet well established within the WBT, and progress made since the 2016 assessment has not been substantial. Surveys such as the 2017 Balkan Barometer, intending to capture business satisfaction with available services, demonstrate that only two-fifths of respondents are satisfied with the digital services provided by public institutions (GfK, 2017).

Currently, Albania, Serbia and Turkey are the only WBT economies collecting information about the use of digital services by SMEs, however, the information they collect is limited. Only Albania evaluates SMEs' satisfaction with digital services. In Albania, responsibility for monitoring the use of digital services by SMEs lies with the Albanian National Agency on Information Society. Its task is to collect feedback from businesses and citizens benefiting from online government platforms. SMEs can write, file complaints and suggest changes to e-government portals. Thanks to the information collected over the years, the Albanian Government's e-services have evolved so as to better respond to SME needs and expectations.

Serbia provides central assistance for digital government but there is no central authority to review or monitor information technology projects, creating a high risk of overlapping or duplicated digital investments (OECD, 2018). Turkey collects data on satisfaction with public services in the scope of the Satisfaction in Life Survey[4] (Turkstat, 2017). However, there is no evidence that the administration makes adjustments based on the survey results or that there are any follow-up measures. By contrast, Bosnia and Herzegovina, Montenegro and North Macedonia have not developed any tools to monitor or evaluate the digital services available to SMEs.

The way forward for digital government services for enterprises

The Western Balkan economies and Turkey have a well-established institutional framework for digital government services. In order to further widen and strengthen their digital services to SMEs, the governments should take the following steps:

- **Allow SMEs to complete all processes on line.** The assessed WBT economies should continue to expand the e-government services for SMEs by including options for tax filing, payroll, procurement, pensions, cadastre, customs, incentives applications and other administrative procedures. Despite the progress achieved since the 2016 assessment, governments need to fully digitalise these services by expanding the use of electronic signatures or digital authentication. This is essential for a fully web-based operational system and will reduce the number of required procedures, save time and lower costs. Digital authentication also helps SMEs to grow by allowing them to access foreign markets easily through e-commerce (for more information, see Chapter 7 on access to finance for SMEs).
- **Improve and promote the use of open government data.** The assessed economies need to expand their online reporting of enterprise statistics and continue their efforts in implementing open government data. Following these steps would help the economies enforce the recommendation made in the previous assessment to introduce or extend the online reporting of enterprise statistics. Open government data not only increases transparency and helps reduce corruption – it also carves out new channels for citizen involvement, as is the case with the Spanish APORTA Initiative (Box 4.2). SMEs' use of OGD remains at low levels, mostly due to their lack of sophisticated analytical tools to analyse large datasets. To increase SMEs' use of OGD, the assessed economies should increase the number of published machine-readable datasets relevant to SMEs. This could be achieved by strengthening a data-driven culture in the public sector, such as through the increased digitalisation of services.

Box 4.2. Aporta: Adding value to open government data in Spain

In 2009, the Aporta Initiative was launched by the Spanish Ministry of Industry, Energy and Tourism together with the Ministry of Finance and Public Administration. The aim of the initiative was to create an ecosystem which stimulates the availability and use of OGD among private, academic and public entities, and encourages them to add further value. Aporta manages the portal, http://datos.gob.es, launched in 2011, and which allows users to freely access data on the state administration and other regional and local administrations in Spain.

As well as maintaining and updating the portal, Aporta focuses on promoting the use of OGD among private sector companies and citizens for positive economic and social impact. For instance, it provides training materials (guides and good practice examples) that offer additional information about open data and their potential reuse. Through organising competitions (the Aporta Challenge) and payments for private sector companies which suggest innovative ideas for the commercial use of OGD, Aporta creates incentives for them to integrate OGD into their businesses. It also organises countrywide meetings to promote a culture of reusing public information. These promotional activities seek to encourage the use of OGD. In parallel, Aporta also helps public institutions to openly publish information according to existing EU directives (EC, 2018). It helps them to identify strategies and methods for integrating OGD into their operations, and monitors and publishes use figures for the OGD portal. It has established a forum on its website which allows users to request the data they need. Through this interactive forum, Aporta seeks to create a demand-driven OGD environment in which the data provided are valuable in economic and social terms.

According to the OECD's *OURdata Index*, Spain ranked fourth for government support for data reuse in 2017 (OECD, 2017). The most recent report by the Spanish Multisectorial Information Association recorded 662 companies operating in the Spanish infomediary sector in 2017, i.e. companies whose activity is based on the reuse of public and/or private data. They employ more than 19 000 employees and generate annual returns of over EUR 1.7 billion. The infomediary sector has been expanding since 2015 in both revenues and numbers of employees (ASEDIE, 2018).

Aporta's key success factor is its concentration on creating value that is relevant for its users. Throughout its activities, Aporta seeks to connect potential beneficiaries of OGD to enhance communication and ensure the provision of data.

Source: Datos.gob.es (About the APORTA Initiative, 2018), *About the APORTA Initiative*, http://datos.gob.es/es/acerca-de-la-iniciativa-aporta.

- **Expand the interoperability system** to improve connections between various public administration databases, to avoid businesses being asked for the same information several times. As Estonia's experience shows (Box 4.3), this will help the public administration save time and money by ensuring that data are only collected once, sparing SMEs from providing information which is already in another public administration's database.
- **Increase the monitoring and evaluation of digital services targeting SMEs**. Governments need to incorporate monitoring and evaluation as an integral part of policy making to inform any mid-implementation corrections and future iterations of digital services. In doing so, governments can increase the take-up of these services by SMEs, helping substantially to lower their administrative burden.

Box 4.3. X-Road: Estonia's system for interoperable government service delivery and data exchange

The introduction of X-Road in Estonia in 2001 transformed its public service delivery. The system links up various public and private sector information systems, making secure data exchanges possible among public and private institutions. X-tee (as X-road based solution is called in Estonia) became the official data exchange layer for the state information system and the backbone of e-Estonia. Information that is stored in a server can be shared with institutions that request it for their service provision.

X-Road connects relevant bodies including the tax and customs board, population and company registers, several commercial banks and many more. X-Road increases the transparency of the public service delivery, as data exchanged through X-Road are authenticated using Estonia's e-ID system and can be traced to their origin or even used as evidence in courts of law (Cybernetica, 2018). It also offers better opportunities to monitor existing services and reduces the risks associated with data storage because no single server holds all the information. It is, instead, held across several servers.

The Estonian Government passed the Public Information Act in 2000, and the use of X Road was made mandatory in 2003. Today, X Road connects more than 600 institutions and enterprises, and approximately 52 000 organisations are indirect users of the more than 2 700 services that can be used via X-Road. Based on its usage figures, it is estimated that every year, X-Road saves more than 800 years of working time.

Many factors have made X-Road particularly successful. It was developed in the early 1990s in a post-Soviet Union context, so there was almost no legacy framework in place. At that time Estonia was one of the first countries to adopt an e-government strategy. Political will and citizens' desire to break with the Soviet era and establish a new government system created a unique opportunity. However, Estonia quickly realised that legislation had to be adjusted to ensure integrity. Estonia's Public Information Act prohibits the establishment of separate databases for the collection of the same data. In practice, it means that state institutions cannot repetitively ask for the same personal information if it is already stored in any of the data repositories connected to X-Road.

Source: (Vassil, 2015); X-Road (Factsheet, 2018), *Factsheet*, www.ria.ee/x-tee/fact/#eng.

Company registration (Sub-dimension 4.2)

Lengthy, costly or complex company registration procedures increase transaction costs for entrepreneurs and may have an adverse effect on the rate of business creation. Therefore, it is essential to analyse whether and how governments tailor their company registration laws and regulations to SMEs' needs, and provide support through systems such as one-stop shops, written guides or advisory services.

This section analyses and compares company registration procedures across the seven assessed economies, in order to understand how they influence entrepreneurs' endeavours to start a business (Table 4.4). The analysis is based on three thematic blocks. The first – design and implementation – looks at whether economies provide one-stop shops and to what extent registration can be done on line. The second – performance – assesses each economy's performance in the World Bank *Doing Business* index for ease of starting a business. The third – monitoring and evaluation – examines monitoring and evaluation of company registration processes and the adjustment made to simplify the registration process.

Table 4.4. Scores for Sub-dimension 4.2: Company registration

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Design and implementation	5.00	3.90	4.73	4.67	4.40	4.67	4.00	**4.48**
Performance	3.93	2.28	4.90	3.83	3.87	4.03	3.17	**3.72**
Monitoring and evaluation	4.31	1.91	5.00	5.00	1.00	4.54	3.40	**3.59**
Weighted average	**4.51**	**2.78**	**4.87**	**4.63**	**2.93**	**4.49**	**3.59**	**3.97**

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

The scores achieved by the assessed economies demonstrate that the region is performing well in designing and implementing company registration, with concrete indications of effective policy implementation. However, the individual scores underline that there are still significant differences among the economies.

All economies have one-stop shops to simplify the registration process

Complicated registration processes for entrepreneurs who wish to start businesses are associated with greater informality, corruption and a smaller tax base (OECD, 2014; Audretsch, Keilbach , & Lehmann, 2006). Simplifying the registration process encourages companies to enter the formal register. One-stop shops allow entrepreneurs to register at a single location, making the process faster and reducing the number of steps, which helps remove barriers to entrepreneurship and stimulate business registrations (OECD, 2010).

All the assessed economies have one-stop shops, although in Bosnia and Herzegovina the only one-stop shop is in the Republika Srpska. However, only Albania, Kosovo and North Macedonia allow all the registration steps to be completed on line.

In Albania, the National Business Centre is responsible for company registration and uses the one-stop shop concept. It assigns a unique entity number to each newly created entity; companies then use their assigned number in their interactions with the public administration and the private sector. The system in Albania also allows for online company registration and the National Business Centre provides information on the relevant processes in English and Albanian. Albania's competences and administrative processes make it a good practice example in the region of how to co-ordinate the different services related to SMEs' operational environment.

In Kosovo, entrepreneurs who wish to register a company can complete all the necessary registration steps on line or through one of Kosovo Business Registration Agency's 28 municipal one-stop shops. Companies are also assigned a single number for all standard transactions with the public administration.

In North Macedonia, the Central Register of the Republic of Macedonia is the single institution where companies are registered; online registration is also available if entrepreneurs have a digital certificate.[5] Companies can also be registered on line in Montenegro through the eUprava portal (Box 4.4), but not the whole process; while requests can be submitted via the online platform, payment has to be in person.

In Bosnia and Herzegovina, each entity is responsible for its own registration process. In the Republika Srpska, the entire procedure is conducted by the Agency for Intermediary, IT and Financial Services, which acts as a one-stop shop and provides one portal for all the necessary registration and notification procedures. The Federation of Bosnia and Herzegovina is planning a one-stop shop, expected to be fully operational by the end of 2019, to cover all 54 municipalities and offer each process through one portal.

Entrepreneurs in Serbia can register their companies through the Serbian Business Registration Agency, which operates as a one-stop shop. However, entrepreneurs cannot complete all the processes on line. In 2016, Serbia reformed its business registration process and made it easier by reducing the signature certification fee and making the registry more efficient (World Bank, 2017). In Turkey, online company registration is available through the Central Commercial Registration System (MERSIS), which acts as a one-stop shop. However, the process is not fully digital, as entrepreneurs are still required to follow up in person at the notary, bank, trade registry office and tax office in order to finalise registration. In February 2018 however, the Turkish Government approved a new reform package to fully digitalise and reduce the number of steps and procedures for licensing and company registration.

The process of simplifying company registration is stagnating in the economies

The World Bank *Doing Business* index measures business regulations and their effect on businesses, especially SMEs. It assesses the complexity of regulations for starting a business by analysing four indicators: the number of procedures required, the time and cost involved in receiving a registration number, and the minimum capital needed.

The general trend over the last ten years in the WBT economies has been a decrease in the number of procedures, time and cost required to start a business (Figure 4.3), showing that economies have made great efforts to adjust their registration process following effective monitoring and evaluation.

As one common point, all the economies have removed the minimum paid-in capital requirement to start a business, with the exception of Bosnia and Herzegovina. However, in 2018 the government managed to reduce the paid-in minimum capital requirement to 11.1% of income per capita from 13.4% in 2016.

Albania, Kosovo, and Serbia are the frontrunners in the region and perform better than the OECD average when it comes to the number of procedures and time required to start a business. Between 2016 and 2018, the number of procedures required to start a business increased in Bosnia and Herzegovina by 1 to a total of 13; and in Montenegro by 2, reaching a total of 8 procedures (Figure 4.3).

Figure 4.3. Number of procedures required to start a business (2008-18)

Note: EU-13 Member States – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
Source: World Bank (Doing Business 2019: Training for Reform, 2018), Doing Business 2019: Training for Reform, https://openknowledge.worldbank.org/handle/10986/30438.

StatLink http://dx.doi.org/10.1787/888933937470

For the number of days needed to start a business, most of the WBT economies fluctuate around the OECD average of 9 days (Table 4.5). Since the 2016 assessment, Kosovo has reduced the number of days needed to register a business from 10 to 5.5 by simplifying the employee registration procedure. Serbia has also managed to bring down the time by 1 day. In North Macedonia, the time to register a company has doubled since 2017 from 7 to 14 days. Bosnia and Herzegovina remains the regional outlier, with 81 days required to register a company.

Table 4.5. Number of days to start a business (2008-18)

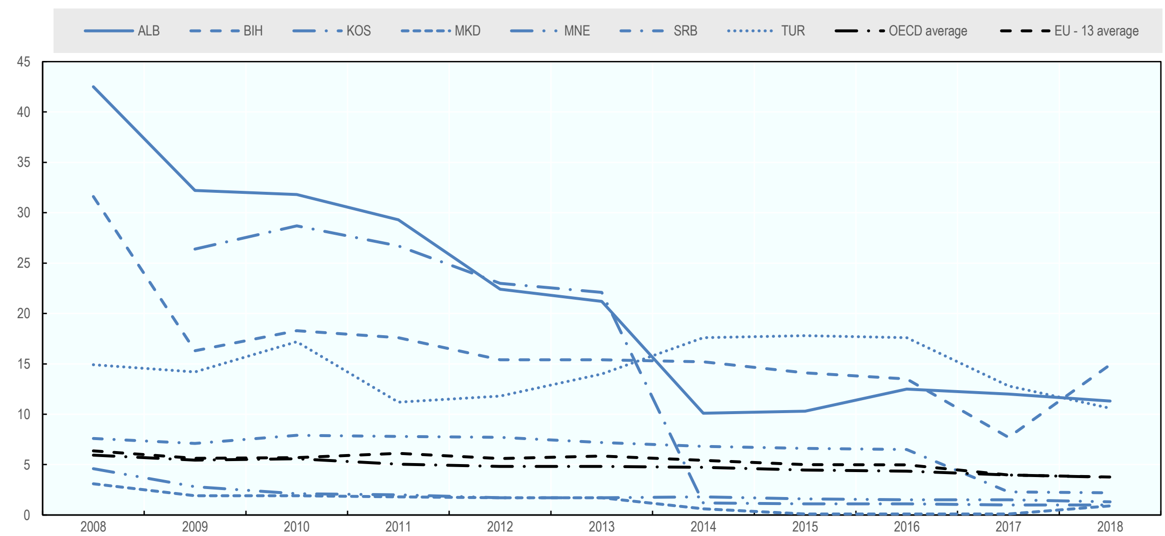
Year	ALB	BIH	KOS	MKD	MNE	SRB	TUR	OECD average	EU-13 average
2008	kk	99	n/a	15	21	23	7	17	23
2009	6	99	52	10	12	13	7	16	19
2010	6	94	58	9	10	13	7	15	18
2011	6	70	58	9	10	13	7	13	20
2012	5	67	51	8	10	12	7	13	20
2013	5	67	29	8	10	12	7	12	19
2014	5	67	10	8	10	11.5	7.5	11	17
2015	5	67	10	7	10	11.5	7.5	10	16
2016	5	65	6	7	10	6.5	6.5	9	16
2017	5	65	5.5	7	10	5.5	6.5	9	15
2018	5	81	5.5	14	12	5.5	7	9	17

Note: EU-13 Member States – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
Source: World Bank (Doing Business 2019: Training for Reform, 2018), *Doing Business 2019: Training for Reform*, https://openknowledge.worldbank.org/handle/10986/30438.

The cost of starting a business has mostly been on a downward trend since the previous assessment, the exceptions being Bosnia and Herzegovina and North Macedonia. Since 2016, Serbia and Turkey have achieved the most significant decrease in the cost of starting a business (Figure 4.4). In Serbia, costs have decreased from 6.5% to 2.2% of income per capita; one reason for this decrease is the reduction of the signature certification fee (World Bank, 2018). In Turkey, despite a decrease from 17.6% to 10.6% of income per capita, the cost of starting a business remains far above the EU-13 average (3.8%).

Figure 4.4. Cost of starting a business (2008-18)

% of income per capita



Note: EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
Source: World Bank (Doing Business 2019: Training for Reform, 2018), *Doing Business 2019: Training for Reform*, https://openknowledge.worldbank.org/handle/10986/30438.

StatLink http://dx.doi.org/10.1787/888933937489

The way forward for company registration

In order to facilitate the company registration process, governments should continue to reduce the time, cost and number of procedures required to help the assessed WBT economies reach their full entrepreneurial potential. The registration process could also be improved as follows:

- **Adopt the rule of one identification number for each company** to use in dealing with all standard public administration functions.
- **Fully implement the "silence-is-consent" principle** within the administration: if the appropriate public authority does not reply to a registration request by a business within a timeframe defined by law, consent is automatically given to the business to proceed.

Business licensing (Sub-dimension 4.3)

Licensing businesses is important for consumers, as it regulates companies' entry into the market and can track their conduct within it. However, in order to operate and function legally, SMEs need a timely and simple process for obtaining the necessary licences.

These procedures can be lengthy and complicated, delaying companies' market entry and adding to the administrative burden of starting a business. Evaluating these processes is critical to understanding the degree to which they may pose a burden on entrepreneurs and the economy in general. Simple procedures and clear guidance on complying with regulations help SMEs accelerate the licence process and reduce transaction costs, allowing them to become operational promptly.

This section analyses the various business licensing systems based on two thematic blocks (Table 4.6). The first – licence procedures – looks at the level of complexity of obtaining a licence, such as whether a centralised approach exists. The second – monitoring and streamlining the licence system – examines economies' efforts to regularly review and simplify legislation, and asks whether there are centralised co-ordination bodies that could assist SMEs and entrepreneurs in their business ventures. This section also assesses the availability of support mechanism such as guidance materials and the cost of licensing fees.

Table 4.6. Scores for Sub-dimension 4.3: Business licensing

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Licence procedures	4.64	3.70	3.76	3.25	3.93	3.25	3.16	**3.67**
Monitoring and streamlining of licence system	3.72	3.32	3.13	3.51	2.97	3.93	1.69	**3.18**
Weighted average	**4.18**	**3.51**	**3.44**	**3.38**	**3.45**	**3.59**	**2.43**	**3.43**

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

The WBT economies have achieved a solid framework for business licensing. With the exception of Albania as the regional leader and Turkey as the worst performer, all the economies fluctuate around the regional average of 3.43.

Licence procedures are clearer, but lack a centralised approach

Licensing regulates businesses' entry into markets and imposes certain conditions on them, which may result in sanctions if businesses do not comply. Therefore licence regulations need to be clear and efficient. At a minimum, they should include clearly written requirements, specific fees complying with the principles of cost recovery, and an understanding that "silence is consent". In most economies, different institutions are responsible for issuing licences according to their competences. Therefore, clear regulations are crucial in order to help SMEs access scattered information.

While all WBT economies apply clear procedures when granting a licence, only Albania, Kosovo and Montenegro have centralised the licensing process through web portals, even though licences and permits are granted by different institutions. However, North Macedonia, Serbia and Turkey have started pilot projects on centralising their licensing portals.

In Albania, the National Business Centre (which operates as a one-stop shop) is in charge of receiving applications for licences, permits and administrative authorisations, and submitting them to the relevant authorities as needed. The process follows the "silence-is-consent" principle – as described above, if the relevant public body fails to answer a request within a prescribed timeframe as detailed in law, consent to the request is automatically given.

In Kosovo, the Central Registry of Permits and Licences is responsible for issuing permits and licences. However, the Legal Department of the Prime Minister's Office co-ordinates the licensing legislation. Therefore, in practice, the Central Registry is not a central co-ordination body with full responsibility for licences.

Montenegro has established a central e-register for licences that deals with 530 licences issued by 37 institutions at different levels – however, only a limited number of licences and permits can be obtained through the eUprava portal (Box 4.4). Serbia is currently planning to establish a registry of permits and licences to be co-ordinated by the Public Policy Secretariat and the Ministry of Economy.

Box 4.4. Montenegro's eUprava portal

In accordance with the EU Digital Agenda for Europe 2020, in 2012 Montenegro introduced the Information Society Development Strategy 2012-2016. The document became a road map for developing Montenegro's information society, in order to reap the potential of ICT services for societal and economic progress. One of the main goals of the strategy was to create an e-government portal for delivering public services to citizens and entrepreneurs.

Accordingly, the eUprava portal was launched in April 2011 and initially provided 12 services, all in the Montenegrin language. In 2018, seven years after its creation, the portal operates under the Ministry for Public Administration and offers 527 services. eUprava provides key electronic registers such as the central population register, business entities register and register of immovable property titleholders. Moreover, the portal brings substantial benefits to SMEs by serving as a one-stop shop for entrepreneurs. Implementing e-services at each administrative level initially met with some resistance to change. To enable e-services to be developed further, the Montenegrin Government made them mandatory through the Law on Electronic Administration.

The introduction of eUprava was combined with technology upgrades, training for civil servants and clear instruction manuals. Despite still being in the process of development and adding new services, such as the Electronic Document Management System, and improving systems' interoperability, Montenegro's e-government ranked 58th out of 199 assessed economies in the world in the UN E-Government Survey 2018 (UN, 2018).

Sources: Lazovic et al. (Analysis of e-Government Portal in Montenegro, 2015), *Analysis of e-Government Portal in Montenegro*, https://ieeexplore.ieee.org/document/7160504; Milonjić (Rhetoric or Reality? E-Government and the Reconceptualization of Service Delivery in Montenegro, 2016), *Rhetoric or Reality? E-Government and the Reconceptualization of Service Delivery in Montenegro*, https://dgap.org/sites/default/files/article_downloads/institut_alternativa_egovernment.pdf; Government of Montenegro (Public Administration Reform Strategy in Montenegro 2016-2020, 2016), *Public Administration Reform Strategy in Montenegro 2016-2020*, www.mna.gov.me/ResourceManager/FileDownload.aspx?rid=268749&rType=2&file=PUBLIC ADMINISTRATION REFORM STRATEGY IN MONTENEGRO 2016-2020.pdf.

In terms of monitoring and streamlining the licence system, the Serbian Government is simplifying licensing processes under an ongoing project, the Implementation of the Action Plan for Improving the Business Environment, funded by the Instrument for Pre-Accession Assistance 2013. In Turkey, the government is planning on reviewing and simplifying some licensing procedures following the development of the *Perakende Bilgi Sistemi* (Retail Information System; PERBIS), which is foreseen as a single entry point for different applications, including licences, for the retail sector. North Macedonia is currently working on an e-licence portal with the aim of having all information and applications for entrepreneurs on line, as well as creating a single entry point for licences and permits. These portals might be the first step towards introducing a digital distribution system for appointing officials responsible for assigning licences – hence making the process more transparent (for more information see the following section).

Bosnia and Herzegovina does not have plans to centralise the licensing system. However, in the Republika Srpska applicants can find information on all licences and permits on a new web portal,[6] established in 2018. It is the single point of contact for businesses, co-ordinated by the Ministry of Economic Relations and Regional Cooperation of the Republika Srpska.

The digital assignment of licensing officials is hardly practised in the region

A digital system that randomly selects officials responsible for granting licences to businesses enhances the transparency of the business licence procedure. It helps to monitor and evaluate officials' compliance with their mandate, as well as distribute the workload equally among licence officers, allowing the administration to respond faster to requests.

Of the WBT economies, only Albania has established digital distribution of licensing officials. All permit and licence requests in Albania can be submitted on line through the National Business Centre, and once the request is registered, the electronic system checks the documents and assigns it randomly to an officer. There are three categories of licences for businesses in Albania. The first category uses the applicant's self-declaration alone to evaluate whether the criteria are fulfilled. In the second category, the decision is based on self-declaration and documentary proof provided by the applicant. The third category of licences, in addition to the requirements of the first and second category, evaluates the fulfilment of the criteria using either an inspection, test, contest, interview, hearing or any other evaluation method.[7]

The way forward for business licensing

In order to streamline business licences and permits, policy makers in the WBT region should:

- **Create a central co-ordination body responsible for business licences, in order to have a systematic overview of licensing.** Individual WBT governments should create a central co-ordination body that deals with assigning licences in order to increase transparency, conduct effective monitoring and streamlining, avoid conflicts of interest and lower administrative burdens and costs for SMEs. As the Businessinfo portal example in the Czech Republic (Box 4.5) show, this could be achieved by upgrading existing one-stop shops to play the role of a central co-ordination body, centralising procedures into one administrative system to enhance interoperability.
- **Introduce electronic distribution and nomination of licensing officers.** Greater reliance on electronic services could help WBT governments increase transparency, avoid conflicts of interest and distribute the workload equally among licensing officers to deal with requests faster. Introducing services based on information and communication technology for SMEs could also enhance their trust in government.

Box 4.5. Businessinfo.cz: A one-stop shop for businesses

EU Member States are each encouraged to have a point of single contact (PSC) or one-stop shop to comply with European Commission Directive 2006/123/EC. The intent of this directive is to provide a user-friendly e-government portal where businesses and investors – whether they are EU members or not – can access the information, procedures and forms they need to start, run, grow or close a business. Those participating EU members become part of the EUGO network[8] of EU PSC e-government business portals.

A good example of an e-government business portal is the Czech Republic's BusinessInfo (www.businessinfo.cz). This is a one-stop shop for active and potential businesses and investors, and provides the following key services:

- A single or unified registration form for entrepreneurs which consolidates and simplifies previously separate procedures (business initiation and updates, Trade Licensing Office registration, social security and health insurance declarations) into one document that can then be filled out for electronic submission directly on the BusinessInfo website.
- Consolidated and user-friendly information on the formalities of the business life cycle, accounting and taxation, funding opportunities, foreign trade, business law and environment. For instance, it provides information on how long it takes to register a business (on average five days) and the number of business registration numbers each business requires (only one). It also provides guidance in multiple languages on cross-border and foreign entity-related commerce.
- Contact information for centralised co-ordinating support bodies at all levels from the municipality to EU Member States, to provide an overview of all licence procedures.
- Additional support services for SMEs, including a responsive helpdesk and interactive discussion forum. The portal also displays links to other websites that focus on assisting start-ups and SMEs.

Businessinfo.cz could serve as a potential template for the economies of the Western Balkans and Turkey that want to consolidate business life cycle information, as well as streamline and simplify their administrative procedures for businesses through electronic filing. Like their EU counterparts, e-government business portals can be used as vehicles to attract foreign direct investment and foreign businesses. Additionally, the voluntary adoption by EU accession-oriented economies of directives from the European Commission demonstrates initiative and willingness to conform to EU standards.

Source: BusinessInfo (BusinessInfo website, 2018) *BusinessInfo website*, www.businessinfo.cz/.

Tax compliance procedures for SMEs (Sub-dimension 4.4)

Overly complex tax payment procedures can lead to high compliance costs, affecting enterprises' operations or even discouraging entrepreneurs from formalising a business in the first place. Tax compliance costs typically have a significant fixed cost component; this tends to impose a higher burden on SMEs than on larger enterprises, which can benefit from returns to scale in complying (OECD, 2015).

To ensure that SMEs can unlock their full potential, the disproportionate compliance burden posed by the tax system needs to be reduced. To achieve this, most OECD and EU countries have introduced various tax provisions designed to reduce SMEs' compliance costs.

This section assesses whether WBT governments have introduced measures to adjust their taxation to accommodate SMEs' unique needs. It looks particularly at income tax, such as a single tax replacement regime, or simplified income tax; and value-added tax (VAT), such as collection thresholds below which enterprises are exempt.

Table 4.7 maps the different tax policy tools for SMEs used in the Western Balkans and Turkey.

Table 4.7. Sub-dimension 4.4: Tax compliance procedures for SMEs – overview

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

Note: As a pilot analysis, this new sub-dimension was not included in the scoring
*These include tax incentives other than those related to income tax and VAT;
** the regime applies in the Republika Srpska.

Only Turkey has a single replacement tax regime for SMEs

A number of OECD countries have single replacement tax regimes that assist very small taxpayers (Box 4.6). They typically include three main elements: 1) a simplified method of tax calculation (often on a presumptive or cash flow basis); 2) simplified reporting and filing requirements; and 3) exemption from all or several other taxes (OECD, 2015).

Among the assessed economies only Turkey has a single replacement tax regime for SMEs. Unincorporated businesses which have an annual revenue of less than TRY 148 000 (Turkish lira; around EUR 26 600) and rental fee below TRY 7 400 (EUR 1 300) in 2018 are subject to a single replacement tax regime, *basit usul vergi* (simple procedural tax). This regime, aimed at micro businesses, was first introduced in 1998 to encourage businesses to formalise by simplifying tax compliance requirements. A number of simplifications in income tax, VAT and other taxes are offered under this regime (please see the following sections for more details).

In order to foster the uptake of this regime among SMEs, Turkey's Revenue Administration published a guide for businesses[9] in 2018, providing extensive information on the eligibility criteria needed to qualify for the simplified regime, as well as its various advantages.

Box 4.6. The *Régimen de Incorporación Fiscal* in Mexico

In January 2014, the Mexican government introduced a new tax regime for small taxpayers, i.e. individuals carrying out business activities selling goods or services whose incomes do not exceed MXN 2 million (Mexican peso).

This tax scheme, the *Régimen de Incorporación Fiscal* (RIF; tax incorporation regime), was introduced as a part of a comprehensive strategy that aims to reduce informality among small enterprises, a pervasive problem in the Mexican economy. The change significantly lowered their personal, social security, VAT and excise tax obligations in the first ten years of operation, creating incentives for informal enterprises to switch to the formal sector.

Income tax is calculated on a cash-flow basis, with similar tax rates to those in the general tax regime. For VAT and excise tax purposes, there is an optional regime based on a simplified schedule of tax rates. This varies by economic activity and type of product, and is applied according to the enterprise's turnover level. This reduces the administrative burden of calculating VAT and excise tax liabilities.

In addition, taxpayers with an income of less than MXN 100 000 can apply for 100% VAT and excise tax reductions for the first ten years of participating in the regime. The RIF regime gradually eliminates tax reductions over a ten-year period.

RIF taxpayers fill out tax returns every two months and their payments are considered final. This contrasts with the general regime, which requires taxpayers to calculate their tax every month and make provisional payments. To be beneficiaries, entities must enrol in the Federal Taxpayer Registry, record revenues and expenses, invoice clients on request or deliver sales notes and submit statements every two months. This scheme is complemented by a range of services to help small, often informal, businesses expand and professionalise as further encouragement to join the formal economy. These services include access to government-backed credit lines and training programmes, as well as a special internet tool that facilitates tax compliance. This tool is provided by the tax administration, *Mis cuentas* (My Accounts), further reducing SME compliance costs. The tool allows SMEs in the RIF regime to issue electronic invoices, simplify their tax accounting, keep registers of income and expenditure and use that information to present their simplified tax returns. RIF taxpayers are also able to buy a tablet at a reduced price to give them access to this tool and to receive payments by bank card.

Source: OECD (Taxation of SMEs in OECD and G20 Countries, 2015), *Taxation of SMEs in OECD and G20 Countries*, https://doi.org/10.1787/19900538.

Income tax simplification is available for SMEs in most assessed economies

In OECD countries, income tax for SMEs depends on the form its business takes. Typically, unincorporated SMEs are taxed only at the personal level, whereas incorporated SMEs are taxed first at the corporate level and then again when profits are distributed at the personal level. Even in the absence of single replacement tax regimes, OECD countries apply various measures aimed at simplifying income tax obligations and reducing compliance costs for SMEs. These measures include the use of presumptive taxes, simplified accounting procedures, the option to use cash accounting, or less frequent filing requirements.

Most of the assessed WBT economies have simplified income tax for SMEs, either at the personal or corporate level (see Chapter 3 on institutional and regulatory framework for more information on SME definitions in the WBT economies). Most use a presumptive tax scheme to simplify income tax calculations and reduce compliance costs for businesses and enforcement costs for the tax administration. In this scheme, income tax is calculated on a different basis to income, providing SMEs with greater certainty about tax liabilities, and in some cases exempting small businesses from traditional book keeping. The rules for presumptive tax regimes specify the conditions for eligibility, as well as the conditions defining when an SME can opt in or out.

In Serbia, unincorporated SMEs can sign up to a "lump-sum" presumptive income tax scheme. Almost 110 000 entrepreneurs benefit from this scheme, constituting more than 30% of businesses. The collected data show that this type of taxation is most frequently used by taxi drivers, legal professions, hairdressers and programmers (USAID/NALED/URP, 2018). SMEs operating in wholesale and retail, hospitality, financial mediation and real estate are not eligible. Those who want to benefit from the scheme are first required to file a form;[10] the tax inspector then determines a monthly lump-sum income based on the information provided, on which tax and contributions are paid at a rate of 10% (Lazarević, 2008). This allows entrepreneurs approved by the tax administration to pay the same amount of income tax each month, regardless of their turnover.

However, recent research points out that Serbia's system of lump-sum taxation has a number of shortcomings, such as being unnecessarily administratively demanding and making costs for businesses unpredictable for entrepreneurs. For instance, when starting a business, entrepreneurs do not know if the "lump-sum" status will be granted to them, since the decision is only taken after registration. They cannot therefore estimate whether starting a business would pay off. Moreover, tax decisions on the liabilities to be paid are delayed by several months (Lazarević, 2008). Based on these findings, the National Alliance for Local Economic Development started a project in 2018, with the support of the US Agency for International Development, to reform the lump-sum taxation system. The project aimed to improve the regulations on granting lump-sum status to businesses and make the scheme more efficient by introducing economic data exchange between public institutions (USAID/NALED/URP, 2018).

Turkey has a presumptive tax scheme for income taxation of unincorporated businesses,[11] calculated on the basis of annual revenue and costs of renting (or imputed rental value if the entrepreneur owns the business property). Those eligible for the *basit usul vergisi* (simple replacement tax) regime are neither required to prepare withholding tax returns nor to pay advanced tax. Moreover, their sales of goods and services are exempt from VAT, and they can deduct TRY 8 000 (around EUR 1 400) from their annual revenue. Additionally, these businesses are exempt from book keeping; they are only required to complete a special tax return and submit it to the tax administration.

In Kosovo all businesses are subject to corporate income tax. The cash accounting regime for corporate income tax was introduced in 2015, which businesses with annual gross incomes of up to EUR 50 000 are eligible to use. Under cash accounting, income tax is only paid on revenues when cash is received and input costs are deducted only when expenses are paid. Many SMEs opt for this method since it simplifies the book-keeping process by eliminating the need to record receivables and payables – only a cash payment record of sales and purchases is needed. In addition, Kosovar businesses with an annual gross income of up to EUR 50 000 are eligible to pay 3% tax on gross income if derived from trade, transport and agricultural activities, and 9% if from service-related activates. If enterprises' annual gross income exceeds EUR 50 000, they are obliged to pay the standard corporate income tax rate, fixed at 10%.

Albania, Bosnia and Herzegovina, Montenegro and North Macedonia have no simplified methods of income tax calculation. Nonetheless, enterprises are either exempt altogether from paying income tax or offered lower tax rates on their annual income.

In Albania, both incorporated and unincorporated SMEs with an annual turnover below ALL 5 million (Albanian lek; around EUR 40 150) are exempt from paying corporate income tax (Eurofast, 2016). For those with an annual turnover of ALL 5-8 million, a 5% income tax rate applies instead of the standard 15%. From January 2019, the ALL 8 million (EUR 64 200) threshold will be increased to ALL 14 million (EUR 116 000).

In Bosnia and Herzegovina, only businesses operating in the Republika Srpska can profit from lower income tax rates. In accordance with the Law on Income Tax in the Republika Srpska, unincorporated businesses with an annual income less than BAM 50 000 (Bosnia and Herzegovina convertible mark; EUR 25 000)[12] are granted a rate of 2% with a minimum payment of BAM 600 (EUR 300) instead of the standard rate of 10%.

In North Macedonia, an incorporated business[13] with an annual income of between MKD 3 million (Macedonian denar; EUR 48 800) and MKD 6 million (EUR 97 600), will pay 1% corporate income tax instead of the standard rate of 10%. Companies with an annual corporate income of below MKD 3 million are exempt from corporate income tax.

In economically underdeveloped municipalities in Montenegro, newly established legal entities are exempt from paying corporate income tax for the first eight years of operation. Unincorporated businesses that start operations in these municipalities also have their personal income tax for the first eight years reduced by 100%.[14] However, the total tax holiday in both cases cannot exceed EUR 200 000 in the first eight years of operation.

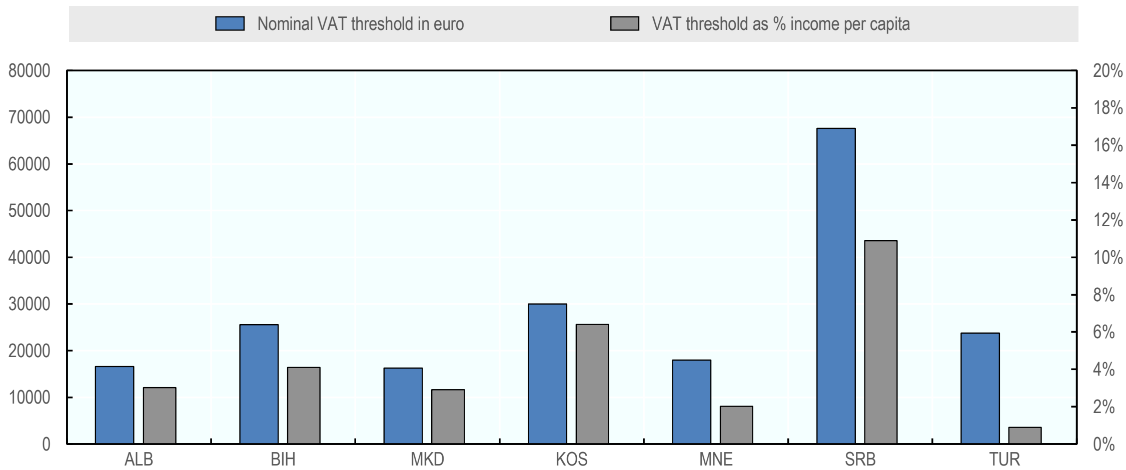
VAT registration and collection thresholds exist throughout the regions

Although designed to be a tax on consumers and neutral for businesses, VAT has proven to be particularly burdensome for SMEs (OECD, 2018). VAT imposes, on the one hand, compliance costs on businesses that have to collect the tax and remit it; and on the other hand, administrative costs for tax administrations. Therefore, reforms that simplify existing VAT regulations for SMEs can help reduce tax compliance and administrative costs, as well as encourage greater tax compliance in the business community.

All the assessed WBT economies have VAT registration and collection thresholds that relieve domestic suppliers under a certain level of turnover from the requirement to register for and/or collect VAT. The threshold levels vary between economies. In order to shed some light on the relative magnitudes, the VAT thresholds are also shown as a percentage of gross national income (GNI) per capita in Figure 4.5.

Figure 4.5. VAT registration thresholds compared

Yearly, % GNI per capita



Note: GNI – gross national income. In Turkey, micro businesses are exempt from VAT when they meet two conditions: 1) annual revenue is less than around EUR 26 600; and 2) rental costs are less than around EUR 1 400.
Source: OECD calculation based on World Bank (Economy & Growth (database), 2018), *Economy & Growth (database)*, https://data.worldbank.org/topic/economy-and-growth?view=chart. 1 November 2018's currency exchange rates were used for the conversion of local currencies into USD and EUR based on the UN Operational Rates of Exchange database.

StatLink http://dx.doi.org/10.1787/888933937508

Across the Western Balkans, thresholds are higher than OECD countries, indicating that the governments have chosen to concentrate their VAT administration capacities on larger businesses (OECD, 2018). Turkey's threshold for VAT exemption, when expressed in yearly GNI per capita, is the lowest in the region at 0.89%. This may hint at a smaller share of SMEs benefitting from the VAT threshold; further analysis is warranted on whether the threshold really benefits the targeted group of SMEs.

Additional tax incentives are available for SMEs across the region

Tax compliance can not only be aided by tax simplification schemes, but also by tax incentives targeted at SMEs; especially if there are strict eligibility criteria for benefiting from the tax incentives. Broad tax bases and low tax rates are often the best solution for keeping compliance costs low for both larger and smaller firms. Many WBT economies provide enterprises with additional incentives for taxes other than income and VAT.

For instance, Montenegro has different tax incentives depending on the jurisdiction level. At the local level, there are tax incentives such as facilitating payments for utilities and other fees, reductions in local surtaxes on personal income tax paid by employees, and real estate tax reductions.

In North Macedonia, if an enterprise is registered in a technological industrial development zone, it is exempt from corporate income tax, irrespective of its income, for the first ten years in which it operates in the zone. The employees of these enterprises are also exempt from paying personal income tax for ten years.

Serbia amended the mandatory social security contributions law in 2017, providing tax exemptions for newly established companies and registered entrepreneurs. From October 2018, up to nine newly employed people can be exempt from paying social security contributions on behalf of employer and employee.

Incentives for SMEs may also be offered depending on the legal status of the enterprise. For example, in Turkey an SME established as a joint-stock company, limited partnership or a limited liability corporation is exempt from stamp taxes and fees on its business formation documents.

The way forward for tax compliance procedures for SMEs

The Western Balkan economies and Turkey have implemented a range of tax simplification schemes, especially for income tax and/or VAT. Before introducing additional schemes, the WBT governments should review the tax simplification schemes that are in place, evaluate whether they achieve their intended objectives and ask whether their design can be improved. A number of areas require further attention from WBT policy makers:

- **Regularly monitor and evaluate tax simplification measures**. Complying with the eligibility criteria of simplified tax schemes in the region does not always remove complexity as intended. Excessive documentation requirements coupled with the limited availability of online options to complete the procedures may deter entrepreneurs and SMEs from making use of these schemes. WBT governments should therefore evaluate how to facilitate compliance for SMEs under the tax simplification schemes, while maintaining sufficient safeguards that prevent abuse and result in low tax compliance.

  While tax simplification schemes should reduce the tax and compliance burden for small firms, they should not create tax-induced disincentives for firms to grow. In many countries, presumptive or simplified tax regimes create a lock-in effect since the change from the simplified to the regular regime results in a too high increase in the tax burden.

  Across the region, simplified tax schemes are not regularly evaluated with a view to analysing SMEs' compliance, economic effects or tax revenue collection. Simplified tax schemes should be regularly monitored and evaluated to gauge whether they are reaching the targeted group of businesses and are effective in reducing income and VAT compliance costs, while at the same time stimulating economic growth.

- **Strengthen the way administrations provide tax-related information to SMEs**. Information should be made available using modern communication platforms so that SMEs can access the information they need. To that end, provision of online support should be stepped up, for example through organising webinars, better use of social media and establishing help desks. Modern ICT tools should also be used effectively in order to make tax reporting and compliance by SMEs as easy as possible. SMEs should find it easy to contact the tax administration for information and guidance on how to comply with tax regulations.

Conclusions

All governments in the Western Balkans and Turkey have established electronic portals informing users about e-services and allowing them to complete basic services on line. For company registration, one-stop shops to start a business are currently operating everywhere in the region. Clear procedures for issuing different types of licences have been established throughout the region. Most economies have income tax simplifications to ease tax calculation procedures for small businesses.

Nevertheless, the assessment reveals still some room for improvement. Looking at digital government for SMEs, not all services can be fully completed on line – despite the existence of online portals, governments still require entrepreneurs' physical presence to finalise various administrative processes. Therefore, the legal framework on e-authentication systems needs to be adapted to allow the full use of electronic signatures in administrative procedures.

The WBT economies could also further centralise their licensing procedures to provide clearer information to SMEs on dealing with the administration. Governments need to evaluate and monitor their tax compliance procedures to assess the real burden on SMEs. Addressing the recommendations put forward in this chapter will help governments increase their institutional capacities in operational environment policies in general.

Notes

[1] For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

[2] See https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2014.257.01.0073.01.ENG

[3] In this SBA assessment cycle, in order to better understand how effective SME policy implementation is and what its outcomes are, the assessment was also complemented with private sector insights gathered through a set of interviews with the owners and managers of SMEs and representatives from chambers of commerce in the Western Balkans and Turkey – see Annex C for more details.

[4] The entire survey is only available upon request and acceptance. The metadata are not provided in machine-readable format nor via a centralised web portal – they can be only acquired through a CD-ROM (Turkstat, 2017).

[5] For more information on the digital certificate see https://e-submit.crm.com.mk/eFiling/en/useful-information/submit-registration-in-3-steps/obtain-a-certificate/obtain-a-digital-certificate.aspx.

[6] See https://pscsrpska.vladars.net/sr.

[7] See Albania's Law No. 10 081, dated 23 February 2009: www.qkr.gov.al/media/1255/1-law-no-10-081-dated-2322009.pdf.

[8] The EUGO network is set up for businesses who want to expand or move their business into another EU country. Each EU country offers via the EUGO network a "point of single contact", a website where information, procedures and forms can be found for all aspects of doing business in

that country. See https://ec.europa.eu/growth/single-market/services/services-directive/in-practice/contact_en.

[9] See www.gib.gov.tr/sites/default/files/fileadmin/beyannamerehberi/2018_basitusulrehber.pdf.

[10] The form asks for 1) the reasons why the entrepreneur is not able to keep business books; 2) planned turnover when starting the activity; and 3) the facts and circumstances relevant for determining the lump sum income: location and equipment in the store; number of workers and engaged members of the family; market conditions in which the activity is performed; surface area of the premises; entrepreneur`s age, his/her capacity for work, and other circumstances affecting profit generation.

[11] Except companies that provide banking, financial, and insurance services, as well as services in the field of games of chance and entertainment games

[12] The term "small entrepreneur" is defined in Article 21 of the Law on Income Tax (*Official Gazette of the Republic of Srpska*, No. 60/15). Three conditions should be met by businesses: 1) no more than three employees (including the owner); 2) no partnerships; and 3) annual income less than BAM 50 000 (EUR 250 000).

[13] Except companies that provide banking, financial, and insurance services, as well as services in the field of games of chance and entertainment games.

[14] Tax exemption does not apply to taxpayers operating in the sector of primary production of agricultural products, transport or shipyards, fisheries and steel.

References

ASEDIE (2018), *Infomediary Sector Report*, Associacion Multisectorial de la Informacion, Madrid, http://www.asedie.es/assets/asedie-sector-infomediary-report-2018.pdf. [21]

Audretsch, D., M. Keilbach and E. Lehmann (2006), *Entrepreneurship and Economic Growth*, Oxford University Press, New York. [27]

BusinessInfo (2018), *BusinessInfo website*, http://www.businessinfo.cz. [34]

Centre for European Economic Research (2017), *The Use of SME Tax Incentives in the European Union*, Centre for European Economic Research, Mannheim, http://dx.doi.org/10.2139/ssrn.2910339. [3]

Cybernetica (2018), *X-Road*, Cybernetica website, https://cyber.ee/en/e-government/x-road/ (accessed on September 2018). [23]

Datos.gob.es (2018), *About the APORTA Initiative*, Datos.gob.es website, https://datos.gob.es/es/acerca-de-la-iniciativa-aporta. [22]

EC (2018), *European Legislation on the Re-use of Public Sector Information*, European Commission, https://ec.europa.eu/digital-single-market/en/european-legislation-reuse-public-sector-information (accessed on 19 June 2018). [19]

EC (2017), *EU-Wide Digital Once-Only Principle for Citizens and Businesses: Policy Options and their Impacts*, Directorate-General for Communications Networks, Content and Technology, European Commission, Brussels, http://dx.doi.org/10.2759/393169. [8]

EC (2017), *New European Interoperability Framework*, European Commission, Brussels, http://dx.doi.org/10.2799/78681 (accessed on September 2018). [17]

EC (2007), *Models to Reduce the Disproportionate Regulatory Burden on SMEs*, Enterprise and Industry Directorate-General, European Commission, Brussels, http://ec.europa.eu/growth/content/models-reduce-disproportionate-regulatory-burden-smes-0_en. [4]

Eurofast (2016), *Albania Tax Card 2016*, Eurofast, http://eurofast.eu/wp-content/uploads/2016/04/AlbaniaTaxCard2016.pdf (accessed on 20 November 2018). [38]

GfK (2017), *Balkan Barometer 2017: Business Opinion Survey*, Regional Cooperation Council Secretariat, Sarajevo, https://www.rcc.int/seeds/files/RCC_BalkanBarometer_BusinessOpinion_2017.pdf (accessed on 13 June 2018). [7]

Government of Montenegro (2016), *Public Administration Reform Strategy in Montenegro 2016-2020*, Government of Montenegro, Podgorica. [33]

Lazarević, L. (2008), *How to Start Your Own Business in Serbia: Lump Sum Taxation*, Mena Consulting website, http://www.mena.rs/kakopoceti/eng/lumptaxation.html (accessed on 20 November 2018). [37]

Lazovic, V. et al. (2015), *Analysis of e-Government Portal in Montenegro*, IEEE, New York. [31]

Margetts, H. and A. Naumann (2017), *Government as a Platform: What can Estonia Show the World?*, University of Oxford, Oxford, https://www.politics.ox.ac.uk/materials/publications/16061/government-as-a-platform.pdf. [40]

Milonjić, M. (2016), *Rhetoric or Reality? E-Government and the Reconceptualization of Service Delivery in Montenegro*, Stability Pact for South Eastern Europe, Vienna. [32]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, Competitiveness and Private Sector Development, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264298576-en. [14]

OECD (2017), *Digital Government: Open Government Data*, http://www.oecd.org/gov/digital-government/open-government-data.htm. [20]

OECD (2016), *SME Policy Index: Western Balkans and Turkey*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/9789264254473-en. [1]

OECD (2015), *Taxation of SMEs in OECD and G20 Countries*, OECD Tax Policy Studies, No. 23, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264243507-en. [35]

OECD (2014), *Recommendation of the Council on Digital Government Strategies*, Public Governance and Territorial Development Directorate, OECD, Paris, http://www.oecd.org/gov/digital-government/recommendation-on-digital-government-strategies.htm. [5]

OECD (2014), *The Regulatory Environment for Small and Medium-Sized Enterprises*, Working Party on SMEs and Entrepreneurship, OECD, Paris. [26]

OECD (2010), *The OECD Innovation Strategy: Getting a Head Start on Tomorrow*, OECD, Paris. [28]

OECD et al. (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264254473-en. [2]

Open Government Partnership (2018), *Open Government Partnership*, https://www.opengovpartnership.org/ (accessed on 3 July 2018). [15]

Parliament of the Republic of Albania (2009), *Law No. 10 081 dated 23.2.2009: On Licences, Authorisations and Permits*, Parliament of the Republic of Albania, http://www.qkr.gov.al/media/1255/1-law-no-10-081-dated-2322009.pdf. [43]

Regional Cooperation Council (2013), *South East Europe 2020 Strategy*, Regional Cooperation Council Secretariat, Sarajevo, https://www.rcc.int/pubs/20/south-east-europe-2020-strategy. [9]

Republic of Kosovo (2015), *Strategy on Modernisation of Public Administration 2015-2020*, Ministry of Public Administration, Republic of Kosovo, https://map.rks-gov.net/institucion/Plan-and-Strategies/Strategjia-e-RAP.aspx?lang=en-US. [13]

Republic of Kosovo (2009), *Strategy for e-Governance*, Ministry of Public Administration, Republic of Kosovo, https://map.rks-gov.net/institucion/Plan-and-Strategies/Strategjia-e-e-qeverisjes.aspx?lang=en-US. [12]

Republic of Turkey (2016), *National e-Government Strategy and Action Plan 2016-2019*, Ministry of Transport and Infrastructure, Republic of Turkey, http://www.edevlet.gov.tr/wp-content/uploads/2016/07/2016-2019-Ulusal-e-Devlet-Stratejisi-ve-Eylem-Plani.pdf. [10]

Republic of Turkey (2015), *Information Society Strategy and Action Plan 2015-2018*, Ministry of Development, Republic of Turkey, http://www.bilgitoplumu.gov.tr/en/wp-content/uploads/2016/03/Information_Society_Strategy_and_Action_Plan_2015-2018.pdf. [11]

Turkstat (2017), *Özet Tablolar (Summary Tables)*, Turkey Statistics Institute website, http://www.tuik.gov.tr/MicroVeri/YMA_2016/ozet-tablolar/index.html. [18]

Turkstat (2017), *Sözleşme (Contract)*, Turkey Statistics Institute website, http://www.tuik.gov.tr/MicroVeri/YMA_2016/sozlesme/index.html. [42]

UN (2018), *United Nations E-Government Survey 2018: Gearing e-Government to support transformation towards sustainable and resilient societies*, United Nations, New York, https://publicadministration.un.org/egovkb/en-us/Reports/UN-E-Government-Survey-2018. [30]

UNDP (2018), *Open Data - Open Opportunities*, UNDP website, http://www.rs.undp.org/content/serbia/en/home/projects/opendata.html. [16]

USAID/NALED/URP (2018), *Reform of Lump-Sum Taxation System*, Public Private Development Dialogue website, http://www.jpd.rs/pausalno-oporezivanje.php. [36]

Vassil, K. (2015), *Estonian e-Government Ecosystem: Foundation, Applications, Outcomes*, World Development Report, http://pubdocs.worldbank.org/en/165711456838073531/WDR16-BP-Estonian-eGov-ecosystem-Vassil.pdf. [24]

World Bank (2018), *Doing Business 2019: Training for Reform*, World Bank Group, Washington, DC, https://openknowledge.worldbank.org/handle/10986/30438. [6]

World Bank (2018), *Economy & Growth (database)*, https://data.worldbank.org/topic/economy-and-growth?view=chart (accessed on October 2018). [39]

World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*, World Bank Group, Washington, DC, http://www.doingbusiness.org/en/reports/global-reports/doing-business-2018. [29]

World Bank (2016), *Doing Business 2017: Equal Opportunity for All*, World Bank Group, Washington, DC, http://dx.doi.org/10.1596/978-1-4648-0948-4. [41]

X-Road (2018), *Factsheet*, X-Road website, https://www.x-tee.ee/factsheets/EE/#eng. [25]

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

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

Key findings

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

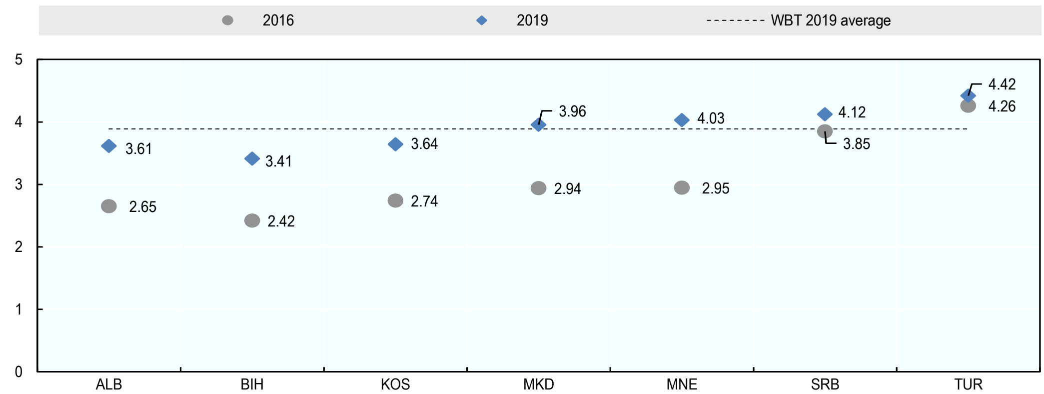
- **All WBT governments acknowledge the importance of BSSs**, and have included specific steps to boost BSS provision through both public institutions and private providers in their relevant SME policy frameworks.
- **Few economies have conducted extensive stakeholder or training needs analyses to adapt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

Comparison with the 2016 assessment scores

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

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

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



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

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

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

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

Introduction

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

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

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

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

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

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

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

Assessment framework

Structure

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

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

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

Support services for SMEs

Outcome indicators
Provision of publicly (co-)funded business support services to SMEs
Percentage of SMEs benefitting from publicly (co-)funded business support services
Local availability of specialised training services

Sub-dimension 5a.1: Business support services provided by the government			**Sub-dimension 5a.2:** Government initiatives to stimulate private business support services		
Thematic block 1: Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation	**Thematic block 1:** Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation

Quantitative indicators
Amount of resources earmarked for co-funded BSS

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

The assessment was carried out by collecting qualitative data with the help of questionnaires filled out by governments, as well as face-to-face interviews undertaken with the owners and managers of SMEs.[3] Alongside these qualitative inputs, quantitative data on certain indicators – provided by the economies' statistical offices, relevant ministries and SME agencies – formed an integral part of this assessment. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Key methodological changes to the assessment framework

Compared to other dimensions in this report, the assessment framework of Dimension 5a did not significantly differ from the previous assessment published in 2016. However, in order to increase the emphasis on effective implementation, the weight of this thematic block has been increased to 50% of each overall sub-dimension score, while planning and design accounts for 30%, and monitoring and evaluation 20%.

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

Other sources of information

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

Analysis

Performance in business support services for SMEs

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

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

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

Number of SMEs/entrepreneurs benefitting by service category

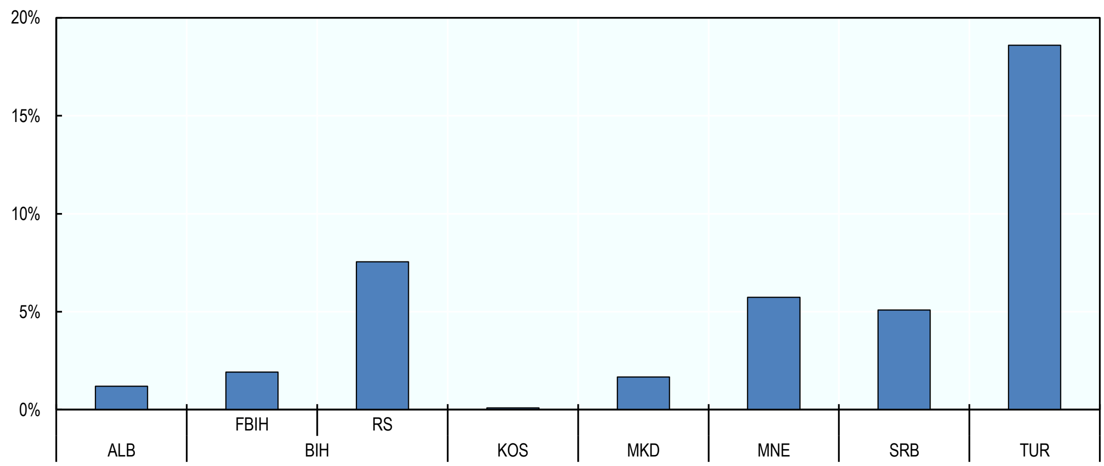
	ALB	BIH		KOS	MKD	MNE	SRB	TUR
		FBiH	*RS*					
General information	530	387	682	37	512	1 081	13 264	366 259
Training	0	0	40	0	385	626	3 480	204 296
Mentoring and consulting	0	0	0	0	22	28	1 420	240
Total	530	387	722	37	919	1 735	18 164	570 795

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

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

Figure 5.3. SMEs' uptake of BSSs (2017)

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

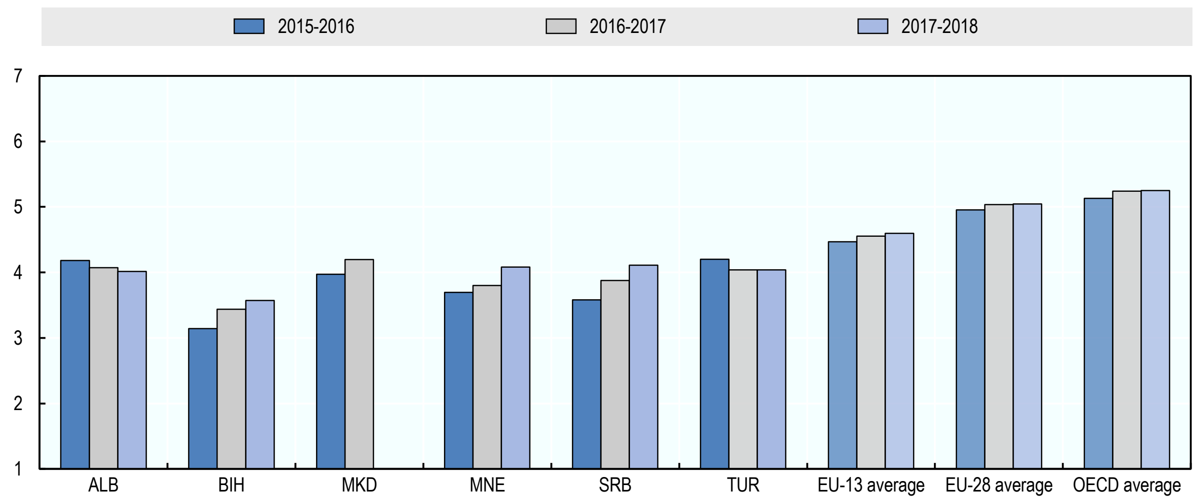


Note: Data for the total number of SMEs (denominator) as of 2016 for Albania and Kosovo. Data on the number of SMEs for the Republika Srpska and the Federation of Bosnia and Herzegovina do not include unincorporated enterprises.
Sources: Statistical offices, ministries and SME agencies of the six Western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

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

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

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



Note: Data for Kosovo not available. Data for North Macedonia for 2017-18 not available. Survey question: In your country, how available are high-quality, professional training services? [1 = not available at all; 7 = widely available]. EU-13, EU-28 and OECD averages calculated as simple average. EU-13 – Bulgaria, Croatia, Cyprus**, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.

Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: WEF (2018[10]), *The Global Competitiveness Index 2007-2017: Downloads*, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Not all the strategies are based on proper training needs analysis

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

In Turkey, at the time of writing, two major strategy documents frame BSS provision: the Entrepreneurship Strategy 2015-2018 and the SME Strategy 2015-2018. Both were built on the overall 2023 vision for Turkey and its 10th Development Plan and both strategies were elaborated with dedicated working groups from the Small and Medium Enterprises Development Organization of Turkey (KOSGEB), which followed ISO 9000 standards, thus assuring stakeholder input. In particular, during the preparation of the SME Strategy, the KOSGEB Working Group conducted an Internet-based survey of 3 697 SMEs, which helped to identify challenges and priorities for the design of BSSs. KOSGEB's actions are based on its 2016-2020 Strategic Plan, which also benefitted from a stakeholder analysis conducted via an Internet-based survey with 864 respondents, of which 728 were SMEs and provided information on KOSGEB's BSSs. Together with interviews of SMEs, both initiatives helped to map Turkey's BSS supply and demand.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Background

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

Programme activities

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

The programme allocates an expert mentor to spend a certain number of hours (from 25 to 50 hours per beneficiary) at the beneficiary's premises. The mentor and the SME's director jointly conduct a diagnosis to understand the business's operations, the reasons for any current problems or obstacles to further development, and the areas with the most growth potential. Based on the factors identified, the mentor and the beneficiary prepare a plan/development project. The business support plan could potentially relate to any functional area of the enterprise, including organisational structure; human resources management, financial management, logistics and distribution, production-technological processes, intellectual property and quality systems. Depending on the need, the mentor could also refer the SME to more specialised consulting services.

Impact

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

Results and feedback from SMEs (up to 2015)

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

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

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

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

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

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

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

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

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

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

The WBT economies' BSS provision in general, and particularly their co-financed BSSs, undergoes financial auditing by the state institutions. For example, since its adoption in 2003, Turkey's Public Financial Management and Control Law has regulated the financial auditing practices for public institutions, among other things. Following this law, KOSGEB's BSS provision is regularly audited internally by KOSGEB's monitoring unit, while Turkey's State Aids Monitoring and Supervision Board audits the programmes externally.

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

Box 5.2. Impact assessment of KOSGEB's Design Support

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

The programme

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

Assessment findings and recommendations

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

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

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

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

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

The way forward for business support services provided by the government

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

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

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

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

Table 5.6. The six steps to approaching monitoring and evaluation

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

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

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

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

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

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

BSSs provided by the government can be pivotal in enabling SMEs, particularly micro and small enterprises, to take advantage of crucial support that they otherwise would not be able to access either because of an underdeveloped private BSS market (on the supply side) or limited resources (on the demand side). Economies with insufficient BSS supply, especially in areas deemed to be less profitable by the private sector, and with low demand for BSSs, therefore benefit substantially from government intervention (OECD, 2018[11]).

However, "international experiences suggest that private institutions can have more credibility with SMEs and may be more responsive to the market" (OECD, 2018[11]). Governments intervening too strongly in BSS provision can distort markets by crowding out private sector providers (OECD, 2018[11]). According to international donor agencies, sustainable business support services are best achieved when delivered by the private sector on a user-pay basis (Committee of Donor Agencies for Small Enterprise Development, 2001[18]). However, the government can facilitate demand – for example by providing information such as on relevant legislation and BSS providers (OECD, 2018[11]) – or targeted financial incentives such as co-financing mechanisms or vouchers for purchasing private services (OECD et al., 2016[13]). In addition, governments should regulate the BSS market, e.g. through quality standards and certification (OECD et al., 2016[13]).

This section assesses government initiatives to stimulate private BSS development in the WBT region, again in three thematic blocks. First, it considers how these services are planned and designed, with appropriate strategy documents and action plans. Second, it looks at implementation, with a particular focus on co-financing schemes – but also whether there are any quality-control mechanisms for private providers and sources of information on BSSs. Finally, it examines whether programmes to stimulate private BSS development are regularly monitored and evaluated, including independent evaluation by external experts.

Overall, the WBT economies' implementation performance is weakest compared to both planning and design, and monitoring and evaluation (Table 5.7).

Table 5.7. Scores for Sub-dimension 5a.2: Government initiatives to stimulate private business support services

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	5.00	4.43	5.00	3.86	5.00	4.43	5.00	**4.67**
Implementation	3.43	3.64	3.29	4.86	3.86	3.57	4.29	**3.85**
Monitoring and evaluation	5.00	3.50	4.00	4.00	4.00	4.00	4.00	**4.07**
Weighted average	**4.21**	**3.85**	**3.94**	**4.39**	**4.23**	**3.91**	**4.44**	**4.14**

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

All SME strategy documents include measures to encourage private service provision

Measures to stimulate the provision of BSSs by private sector providers (such as co-financing schemes or vouchers) are included in the SME strategies and/or relevant strategy documents in all WBT economies.

Albania, Kosovo (draft at the time of writing), Montenegro and Turkey all have relevant strategy documents with an action plan detailing implementation timelines and including measurable targets, thus facilitating effective monitoring. In addition, the action plan of the strategy for the Development of Small and Medium Enterprises in the Federation of Bosnia and Herzegovina 2016-2018 also includes measurable targets.

North Macedonia, the Republika Srpska in Bosnia and Herzegovina, and Serbia are trailing behind the rest of the region. While North Macedonia's Competitiveness Strategy 2016-2020 and newly adopted SME Strategy include an action plan with monitoring indicators, they do not provide measurable targets. Likewise, the action plan of the SME Development Strategy of the Republika Srpska 2016-2020 includes monitoring indicators, but not measurable targets. As already mentioned above, the most recent action plan for Serbia's SME Development Strategy 2015-2020 expired in 2016 and has not yet been renewed.

Co-financing schemes for private business support services are available across the region

All WBT governments support BSS provision through private sector providers (i.e. via a co-financing scheme for consultancy services or training), and they have all mobilised a budget for initiatives to stimulate BSS provision by the private sector.

In developing economies, "private sector [BSS] providers often depend on donor support to deliver [BSSs], however, when the project ends, so does the [BSS], which results in discontinuity in [BSS provision] to entrepreneurs and SMEs" (OECD, 2018[11]). Ensuring that co-financing schemes for private sector BSS provision do not rely too heavily on donor support can mitigate this risk. In Albania and the Federation of Bosnia and Herzegovina, the funds allocated to stimulating private sector BSSs are relatively equally balanced between the government and donors. In Kosovo, Serbia and the Republika Srpska in Bosnia and Herzegovina, the funds also benefit to some extent from donor support. Initiatives for stimulating private sector BSSs are fully government funded in Montenegro, North Macedonia and Turkey.

All the WBT economies have operational co-financing mechanisms, which usually have clearly defined structures and eligibility criteria. For example, in Albania, AIDA details the eligibility criteria, the co-financing mechanism and the payment methods for each of the four operational funds it managed in 2018: 1) the Competitiveness Fund; 2) the Fund for Start-up Enterprises; 3) the Creative Economy Fund; and 4) the Innovation Fund. All of the funds have a co-financing mechanism with a clearly defined structure.[7] For example, an SME accepted by the Fund for Start-up Enterprises, which had a budget of ALL 10 million (Albanian lek; approximately EUR 77 760) in 2018, can be co-financed for up to 70% of acceptable costs up to a limit of ALL 500 000 (EUR 3 888). Admissible costs include: 1) investment in equipment and technology for promoting a product or service; 2) marketing and product promotion; 3) qualifications and training in entrepreneurship skills; 4) web design and publishing promotional material; and 5) attendance at trade fairs or exhibitions in Albania or abroad as a visitor or exhibitor. An SME accepted by the fund receives 50% of the funding at project approval and 50% upon completion of the project against invoices of expenses.

In Turkey, KOSGEB operates co-financing schemes under its General Support and New Entrepreneur Support programmes. For example, under the General Support programme SMEs can benefit for three years from co-financing for 15 types of support, including consultancy support, and training support. Each type of support has an upper limit: consultancy support is limited to TRY 22 500 (around EUR 5 360), while the upper limit for training support is fixed at TRY 20 000 (around EUR 4 760). The co-financing rate for all types of support is fixed at 50%, 60% or 70% of admissible costs, depending on the region the SME is registered in, with more support given to SMEs in less developed regions, mostly in Turkey's eastern and south-eastern provinces. Similarly, the co-financing rate under KOSGEB's New Entrepreneur Support programme depends on the region the SME operates in. KOSGEB also provides more favourable co-financing rates for women entrepreneurs, disabled entrepreneurs and other specific or more vulnerable categories.

In Kosovo, KIESA operated two voucher schemes in 2017, one for consultancy services and one for product certification. The total amount allocated to both voucher schemes in 2017 was EUR 50 000 (EUR 25 000 for consultancy vouchers and EUR 25 000 for production certification vouchers). The consultancy voucher covers 50% of the cost up to the maximum subsidy amount of EUR 50 per day. The beneficiary is required to cover the consulting costs in full and is reimbursed after project completion. Consultancy support is limited to a maximum of 12 days: up to 10 days for consultancy, 1 day for evaluation (diagnosis) of the beneficiary enterprise status and 1 day for concluding reporting. KIESA co-finances product certification in the construction, metal processing, and wood and furniture processing sectors. Product certification is co-financed at a rate of 75% with an upper limit of EUR 10 000. Beside these schemes, KIESA launched a new co-financing scheme in 2018, which co-finances SMEs' purchases of machinery for production purposes by up to 75%. The budget for this scheme was EUR 1.5 million in 2018 and 36 SMEs had already benefitted from it at the time of writing.

In Serbia, under the Create Life programme, start-ups can benefit from a dedicated start-up programme, implemented by RAS in co-operation with accredited RDAs. The programme consists of two stages. In the first stage, start-ups must complete training before being eligible to apply for the second stage, which provides co-financing for the purchase of fixed assets, adaptation and/or reconstruction of business premises, supplies, and raw materials. In 2017, the total available funds for the programme amounted to RSD 120 million (Serbian dinars; approximately EUR 988 500). Start-ups can benefit from up to RSD 1 million (approximately EUR 8 240) and the programme co-finances 70% of eligible project costs for production and processing activities and 50% of eligible project costs for services.

In Bosnia and Herzegovina, as noted above, BSS programmes are designed and implemented at the entity level. In the Federation of Bosnia and Herzegovina, under the Strengthening Competitiveness of SMEs programme the FMRPO provides co-financing of 50% of eligible costs to SMEs in three areas: 1) technological improvement, improvement of product quality and standardisation of business and production processes; 2) training; and 3) market access and product promotion. In 2017 the budget for the first area was BAM 1.2 million (Bosnia and Herzegovina convertible marks; around EUR 612 250), BAM 250 000 (around EUR 127 560) of which was funded by the EU; BAM 500 000 (EUR 255 100) for the second area, with BAM 200 000 (around EUR 102 100) financed by the EU; and BAM 300 000 (EUR 153 100) for the third area. The upper limits for support are fixed at BAM 38 000 (EUR 19 400) for the first area, BAM 17 000 (EUR 8 675) for the second area and BAM 10 000 (EUR 5 110) for the third area. Entrepreneurs under the age of 35 and women entrepreneurs have preferential access to this programme. In the Republika Srpska, RARS provides co-financing for consultancy support within the Consultant Network programme, covering 50% of eligible costs. The total amount allocated to this programme in 2018 was BAM 38 000 (EUR 19 400). The upper support limit was fixed at BAM 3 000 (EUR 1 531).

In Montenegro, co-financing is available to SMEs under the nine Business Stimulating programmes. For example, under the Innovation Enhancing in SMEs programme, SMEs in the processing industry which meet certain criteria can receive co-financing for 50% of consultancy costs, up to an upper support limit of EUR 3 500 in 2017. In North Macedonia, the APPRM offers a voucher scheme for consulting services. For 2018, it allocated a total budget of MKD 900 000 (Macedonian denars; around EUR 14 635) to this scheme, which addresses two target groups. It entitles SMEs to co-financing of 50% of consulting costs with an upper support limit of MKD 45 000 (EUR 732). SMEs with innovative projects – i.e. with the potential for developing new products, services or processes – are entitled to up to MKD 90 000 (EUR 1 463).

Quality control mechanisms, such as accreditation procedures for private sector providers, help ensure that the BSSs they deliver are of suitable quality. Despite their use of co-financing schemes, not all of the WBT economies have mechanisms in place to ensure the quality of the services performed. During this assessment period only the relevant public institutions in North Macedonia and Turkey made their co-financing schemes conditional on the use of accredited consultants.

SMEs can find information about private sector consultants from chambers of commerce in all the WBT economies. However, governments, through SME agencies or dedicated public institutions, can play an important role in helping SMEs identify the most suitable private BSS provider, without actually prescribing one particular service provider (Braidford and Stone, 2016[8]). Although the relevant public institutions in all WBT economies provide information on their co-financing schemes, only the Republika Srpska in Bosnia and Herzegovina, Montenegro and North Macedonia provide an online database of private sector consultants.

The relevant public institutions in all WBT economies monitor their co-financing schemes, but only Albania benefitted from an independent evaluation

The relevant public institutions in all the WBT economies monitor the implementation of their co-financing schemes, make information on programme beneficiaries publicly available and collect feedback on beneficiaries' satisfaction levels (though this is not consistently collected in Bosnia and Herzegovina).

However, out of the seven WBT economies, only Albania has had the opportunity to benefit from an independent in-depth evaluation of its co-financing schemes. In 2017, supported by GIZ, independent experts conducted a technical evaluation of all the co-financing support mechanisms for SMEs Albania operated between 2013 and 2017. The resulting 70-page document (Memi and Shkodrani, 2017[19]) includes quantitative data on the uptake of each funding scheme (number of applicants and number of beneficiaries) and evaluates the funds' administration based on two sources of qualitative information: 1) interviews with staff from AIDA and the Ministry of Finance and Economy, who were involved in the funds' management, and interviews with applicants and beneficiaries; as well as 2) a questionnaire distributed to 50 SMEs. Based on the findings and international good practice examples, the evaluation provided general recommendations for all of the funds. It also detailed the strengths and weakness of each fund and for each weakness provided a recommendation on how to improve it.

The way forward for government initiatives to stimulate private business support services

In order to facilitate the growth of a diversified BSS provision market, policy makers in the WBT economies should:

- **Continue supporting the development of a sustainable market of private sector BSS providers**. The relevant public institutions in the WBT economies should keep running their co-financing schemes and, where relevant, gradually reduce their dependency on donor support. They should check that the eligibility criteria for their co-financing schemes are not so strict that they discourage SMEs from applying. Policy makers should also consider creating and regularly updating a database of private sector experts, specialists and consultants which is easily accessible to the public, and promoted among SMEs. Private sector providers included in this "official" database should be required to have a minimum level of experience and qualifications and, ideally, be accredited by recognised professional bodies. This would guarantee the quality of services delivered and would also encourage SMEs to be more enthusiastic in seeking privately delivered BSSs, with benefits for their performance and growth.
- **Boost co-financing scheme uptake by adapting them better to SMEs' needs.** SMEs often do not take advantage of co-financing schemes. Korea's SME Training Consortiums Program assessed SMEs' training needs in order to provide them with tailor-made training, thus increasing programmes' attractiveness and uptake (see Box 5.4).

Box 5.4. The Korean SME Training Consortiums Program

Background

The Korean SME Training Consortiums Program (later the National Human Resources Development Consortiums Program) was developed in response to the Asian financial crisis of 1997. This initiative was developed because small firms were failing to respond to financial incentives offered through a training rebate system.

Only 21% of SMEs, and only 4% of SME employees, were accessing training levy rebates, compared with 78% of larger firms, and 38% of employees of larger firms. Low participation levels among small firms suggested that the financial incentives were often insufficient to convince SMEs to train their workers (Woo Lee, 2016[5]). Larger enterprises often benefit more from a levy system as they have staff members who specialise in identifying training needs and organising training inside and outside the firm. Moreover, procedures to claim training rebates are often time consuming for SMEs.

Programme activities

In 2001, the Government of Korea tested a pilot in-service training project which organised industry and geographically determined groups of SMEs into training consortiums (TCs). The government provided each TC with financial support to hire two training managers, who were tasked with providing TC members with technical and institutional assistance to identify their training needs. Since the 2001 pilot programme, many entities, including employers' associations, large enterprises and training institutions have participated in the programme.

In particular, local chambers of commerce have assisted groups of 30-50 SMEs in the same geographical area and industry to organise themselves into TCs and have also financed two training managers for each consortium. The training managers have established information networks including websites and email lists, conducted surveys of the training needs of SMEs by interviewing managers and workers, established contracts and collaborations with training institutions to develop curricula, and monitored training activities and conducted evaluation studies upon their completion. Despite some limitations, the pilot project was deemed a success and the government scaled up the initiative.

Obstacles encountered

The project was initiated with the expectation that SME members of each TC would be part of the same sector or industrial association. However, as the number of TCs increased, they lost homogeneity and solidarity among member SMEs. The TCs started including SMEs from multiple industrial sectors, which prevented training managers from effectively organising training courses and arranging specialised training.

Sources: Extracted from OECD (2017[1]) "Enhancing productivity in SMEs: Interim report"; Woo Lee (2016[5]) "Skills training by small and medium-sized enterprises: Innovative cases and the consortium approach in the Republic of Korea", www.adb.org/sites/default/files/publication/188802/adbi-wp579.pdf.

- **Strengthen the monitoring and evaluation** of BSSs provided through co-financing schemes. This will be of paramount importance if the effectiveness of BSS initiatives is to be improved. An interesting example of the importance and benefits that regular monitoring and evaluation bring to the quality of BSSs is Italy's NIBI-Promos training portfolio (Box 5.5). This undergoes regular evaluation by independent external experts, with an obvious positive impact on service quality and effective strategy development and adjustments. It will also be important for WBT governments to cater for the independent and professional monitoring and evaluation of the services provided by private sector suppliers. This would not only ensure a minimum level of service quality and a greater impact on SME productivity, but also encourage SMEs to be more enthusiastic in seeking the benefits of privately delivered BSSs.

Box 5.5. Italy's NIBI-Promos programme: Doing Business Abroad with NIBI

Background

The Nuovo Istituto di Business Internazionale (NIBI) was created in 2009 by the Milan Chamber of Commerce and Promos, a public agency dedicated to supporting SME internationalisation, in order to 1) provide high-level executive education on international business; 2) facilitate stakeholder dialogue, involving chambers of commerce and business associations; and 3) provide a stimulus to positively influence business practices, public policy making and social growth.

Programme activities

Since 2014, NIBI and Promos have been refining the training and support package they offer to Italian SMEs, bringing SMEs, private sector trainers and experts together under the same roof.

Demand for training is analysed and SMEs' needs assessed on a regular basis thanks to the intelligence gathered through the daily interactions between the chamber's departments, including Promos and NIBI, with SMEs in all sectors of industry present in the region. Additional intelligence comes from information exchanged with chambers of commerce in other cities and regions which also keep in regular contact with their own local SMEs. This data collection exercise is complemented by surveys conducted by the Milan Chamber of Commerce to inform training design and content development.

The design of the training programme starts with the involvement of specialist trainers who develop the content in line with the analysis of these data, benchmarking, survey results and reviews of company profiles. The training programme is shared with participants beforehand through personal meetings or conference calls, which are also used to confirm participants' attendance.

The training programme, designed to suit the needs of SMEs' owners and managers, lasts two months, and it consists of five weekend modules, offered at an average cost of EUR 1 000 (plus value-added tax) for 8 hours of training. The cost covers teaching, facilities, classroom equipment and training materials. Over the 60 hours of the programme, participants familiarise themselves with the main tools and competences required to effectively operate internationally, including a review of the international economic context, business and investment opportunities, adequate marketing and entry strategies, and business culture in selected target markets.

The training programmes, developed in line with international quality standards, provide professional learning experiences. NIBI and Promos have been awarded CISQ-Certiquality accreditation, UNI EN ISO 9001:2008 and the SGQ Certificate.

The delivery has a practical and interactive focus, and is based on presentations, case studies, group work and real-life scenario analysis.

Impact

Over the last nine years, NIBI and Promos have supported over 5 000 managers and professionals from SMEs all over Italy. Participants' learning outcomes from the training are:

- gaining familiarity with international markets, their features, dynamics, and policies
- gaining familiarity with international initiatives that support SMEs' internationalisation (including tenders and calls for projects)
- conducting an international market analysis to identify opportunities for their company
- developing suitable and effective internationalisation strategies.

Participant satisfaction is measured during the training via a satisfaction questionnaire, while a final questionnaire is used to provide feedback on the entire programme. The level of skills increase is assessed via practical exercises during the training programme. An e-learning platform allows participants to assess their knowledge and skills level throughout the course of the programme.

Sources: NIBI (2018[20]), *NIBI website*, http://www.nibi-milano.it; Promos (2018[21]), *Promos website*, www.promos-milano.it; interviews with NIBI representatives.

Conclusions

Overall, the relevant public institutions in all the WBT economies have taken positive steps in this assessment period to improve the provision of business support services to SMEs.

They have all included measures to strengthen BSSs in their wider SME policy framework and have dedicated public institutions which assure their implementation. Some economies have made noteworthy efforts to improve their understanding of SMEs' differentiated needs for services, or have benefitted from in-depth independent assessments of their support. Most WBT economies have made information about BSSs more accessible, notably by establishing a single web portal which centralises information about the BSSs available from different institutions.

However, this assessment also found that SMEs' uptake of support services is still very low in most of the WBT economies. The relevant public institutions in all the economies should focus on the design of their BSS offer and use monitoring results to adjust their plans accordingly. In particular, they should make sure that they regularly assess SMEs' demand for BSSs to ensure that the public offer corresponds to the characteristics and dynamics of their SME base, and that suitable support is available for different sectors and stages of development. Similarly, their BSS programmes should be monitored and evaluated against clear performance indicators, taking into account feedback from beneficiaries. They should also assess beneficiaries' performance after support, by comparing them with a control group.

Addressing the recommendations put forward in this chapter will help the relevant institutions in the WBT economies to increase the return on their BSS programmes in terms of SME survival rates, productivity and employment generation.

Notes

[1] Business support services can be defined as "non-financial services that enable companies to enhance their competitiveness and improve their performance across a wide range of activities. This includes the provision of specialist external advice and expertise to facilitate the enhancement of internal resources and capabilities" (OECD et al., 2016[13]; OECD, 1995[24]).

[2] According to a search conducted by the OECD in the core collection of the Web of Sciences in 2017. For more information on the search parameters, see OECD (2017[1]).

[3] In this SBA assessment cycle, in order to better understand how effective the SME policy implementation is and what its outcomes are, the assessment also included private sector insights gathered through a set of interviews with the owners and managers of SMEs and representatives from chambers of commerce in the Western Balkans and Turkey. The questions for this dimension aimed to assess the extent to which 1) SMEs had benefited from BSSs which were delivered or co-funded by a public institution; 2) SMEs were aware of publicly (co-) financed BSSs; and 3) BSSs (co-)funded by the government covered the areas needed by SMEs. They also covered SMEs' perceptions of the quality, quantity and accessibility of publicly (co-)funded BSSs. See Annex C for more details.

[4] For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

[5] In 2013, the Japan International Cooperation Agency (JICA) launched the project on the Establishment and Promotion of Mentoring Service for SMEs in the Western Balkans in

co-operation with the ministries of economy and regional development agencies of Serbia, Bosnia and Herzegovina, and Montenegro. The objective of the project in Serbia has been to improve the mentoring system and to provide mentoring services in the whole of Serbia. The scope of the project in Bosnia and Herzegovina and Montenegro has been to improve the capability of SME support institutions and to promote the development of local SMEs by introducing the mentoring service. The first phase of the project lasted until 2016. In 2017, JICA and the three economies launched the second phase of the project, which runs until 2020. The second phase also includes North Macedonia and seeks to develop or further enhance a mentoring system provided through development agencies in those four countries.

[6] See Annex C for further information on these interviews.

[7] For example, to benefit from the Fund for Support Start-up Enterprises, which had a budget of ALL 10 million (approximately EUR 79 640) in 2018, SMEs need to 1) be registered in the commercial register, for the first two years of activity; 2) be classified as an SME according to Law No. 8957; 3) be registered or have their main place of production within the territory of Albania; 4) have a business plan or a project and be able to duly implement the scheduled activities in timely fashion; 5) create a minimum of 1-3 new jobs in the 12 months from the moment they receive the funds; and 6) be able to finance 50% of all project costs in the application submission phase.

References

Beck, T., A. Demirguc-Kunt and R. Levine (2005), "SMEs, growth, and poverty: Cross-country evidence", *Journal of Economic Growth*, Vol. 10/3, pp. 199-229, https://link.springer.com/content/pdf/10.1007%2Fs10887-005-3533-5.pdf (accessed on 26 July 2018). [7]

Braidford, P. and I. Stone (2016), "Providing business support to SMEs – how to encourage firms' engagement", *Zarządzanie Publiczne*, Vol. 4/38, pp. 45-61, http://dx.doi.org/10.15678/ZP.2016.38.4.04. [8]

Bryson, A. and J. Forth (2016), "What role did management practices play in SME growth post-recession?", *IZA Discussion Papers*, No. 10042, Institute for the Study of Labor, Bonn, http://hdl.handle.net/10419/145176 (accessed on 26 July 2018). [3]

Colombo, M., A. Croce and L. Grilli (2013), "ICT services and small businesses' productivity gains: An analysis of the adoption of broadband Internet technology", *Information Economics and Policy*, Vol. 25/3, pp. 171-189, http://dx.doi.org/10.1016/J.INFOECOPOL.2012.11.001. [4]

Committee of Donor Agencies for Small Enterprise Development (2001), *Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention*, World Bank Group, Washington, DC, https://www.enterprise-development.org/wp-content/uploads/BDS-Guiding-Principles-2001-English.pdf (accessed on 28 August 2018). [18]

Cravo, T. and C. Piza (2016), "The impact of business support services for small and medium enterprises on firm performance in low- and middle-income countries: A meta-analysis", *Policy Research Working Paper*, No. 7664, World Bank, Washington D.C., http://documents.worldbank.org/curated/en/521211467989461591/The-impact-of-business-support-services-for-small-and-medium-enterprises-on-firm-performance-in-low-and-middle-income-countries-a-meta-analysis. [2]

EC (2008), *Think Small First: A Small Business Act for Europe*, Commission of the European Communities, Brussels, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52008DC0394 (accessed on 27 July 2018). [6]

Memi, A. and E. Shkodrani (2017), *Evaluation and Analysis of Government Support Funds for MSME Operated by AIDA*, HM&H, Tirana. [19]

Ministry of Economy of Montenegro (2017), *Saopštenje: Preduzeća prepoznaju značaj uvođenja inovativnosti u poslovanje [Press Release: Companies recognize the importance of introducing innovation to business]*, Ministry of Economy of Montenegro, http://www.mek.gov.me/vijesti/174375/Saopstenje-Preduzeca-prepoznaju-znacaj-uvodenja-inovativnosti-u-poslovanje.html (accessed on 31 July 2018). [12]

Mole, K. (2016), "(Seeking, acting on and appreciating) the value of business advice", *ERC Research Paper*, No. 44, Enterprise Research Centre, Coventry, https://www.enterpriseresearch.ac.uk/wp-content/uploads/2016/05/ERC-ResPap44-KMole.pdf. [22]

NIBI (2018), *NIBI website*, Nuovo Istituto di Business Internazionale, http://www.nibi-milano.it/ (accessed on 15 November 2018). [20]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, Competitiveness and Private Sector Development, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264298576-en. [23]

OECD (2018), "Country review of SME and entrepreneurship policy: Indonesia", Draft report, 53rd Session of the Working Party on SME and Entrepreneurship 23-24 April 2018, OECD, Paris. [11]

OECD (2018), "Monitoring and evaluation of SME and entrepreneurship programmes", Policy Note, SME Ministerial Conference, 22-23 February 2018, Mexico City, OECD, https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Parallel-Session-6.pdf (accessed on 30 August 2018). [17]

OECD (2017), "Enhancing productivity in SMEs: Interim report", OECD Working Party on SMEs and Entrepreneurship, OECD, Paris. [1]

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

OECD (1995), *Boosting Businesses: Advisory Services*, OECD Publishing, Paris. [24]

OECD et al. (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264254473-en. [13]

Promos (2018), *Promos website*, Promos, https://www.promos-milano.it/ (accessed on 15 November 2018). [21]

RAS (2017), *Create Life: Public Call for the Implementation of Standardised Mentoring Service*, Development Agency of Serbia, http://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-the-implementation-of-standardised-mentoring-service (accessed on 31 August 2018). [15]

SERDA (2018), *JICA Trening Trenera za SERDA Mentore (JICA Training Trainers for SERDA Mentors)*, Sarajevo Economic Region Development Agency, https://serda.ba/bs/novosti/jica-trening-trenera-za-serda-mentore/3422 (accessed on 9 November 2018). [14]

Stone, I. (2012), "Upgrading workforce skills in small businesses: Reviewing international policy and experience", Report for Workshop on Skills Development for SMEs and Entrepreneurship, OECD, Copenhagen. [9]

WEF (2018), *The Global Competitiveness Index 2007-2017: Downloads*, World Economic Forum, Geneva, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/ (accessed on 24 July 2018). [10]

Woo Lee, K. (2016), "Skills training by small and medium-sized enterprises: Innovative cases and the consortium approach in the Republic of Korea", *ADBI Working Paper Series*, No. 579, Asian Development Bank Institute, Tokyo, https://www.adb.org/sites/default/files/publication/188802/adbi-wp579.pdf (accessed on 26 July 2018). [5]

Chapter 6. Public procurement (Dimension 5b) in the Western Balkans and Turkey

This chapter assesses the systems and procedures required in the Western Balkans and Turkey to facilitate SMEs' access to the public procurement market. It starts by outlining the assessment framework, then presents an analysis of Dimension 5b's three thematic blocks: 1) policy and regulatory framework, which assesses the policy and regulatory framework for public procurement, especially activities and legal provisions that are most relevant to SMEs; 2) implementation, which assesses how public procurement provisions are implemented in practice; and 3) monitoring and evaluation, which assesses whether access to public procurement markets by economic operators is monitored and evaluated, especially for SMEs. The chapter makes specific recommendations for improving SMEs' access to public procurement procedures in the Western Balkans and Turkey.

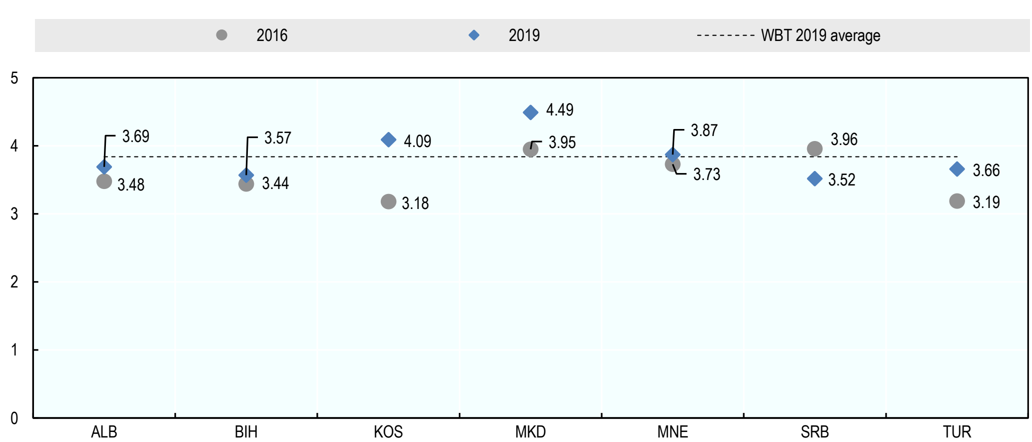
Key findings

- **The assessed economies have made progress, particularly in improving public procurement policy and regulatory frameworks**, but also in implementation, monitoring and evaluation.
- **Some economies have improved their public procurement legislation**, especially provisions relevant to SMEs. They have simplified public procurement procedures by easing documentary evidence requirements and thereby reducing the administrative burden on SMEs, or allowed for the use of non-price criteria for awarding contracts.
- **A few economies still use domestic preferences,** which do not comply with the principle of equal treatment of economic operators.
- **There are still limitations in the areas of subcontracting and joint bidding,** such as requirements that groups of economic operators adopt specific organisational forms.
- **The procurement regulatory framework will be further improved** once new laws are adopted to implement the 2014 EU Directives on public procurement.
- **Not all economies provide sufficient advice, support and training to help SMEs access to public contracts**.
- **None of the economies collect, analyse or publish** enough information on SME participation in public procurement markets.

Comparison with the 2016 assessment scores

While almost all seven assessed economies could improve their scores since the 2016 assessment, Kosovo, North Macedonia and Turkey witnessed the strongest increases (Figure 6.1). With a score above four, North Macedonia and Kosovo performed best in the 2019 assessment.

Figure 6.1. Overall scores for Dimension 5b (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

All the recommendations in the SME Policy Index 2016 have either been implemented, or are being implemented, by all the assessed economies (Table 6.1).

Table 6.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 5b

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Further align national legislation with EU rules and international best practice	- All economies regulate public procurement in accordance with the basic standards of EU directives and international best practice. Further alignment is needed with the requirements of the 2014 EU procurement directives.	Moderate
Encourage the division of contracts into lots wherever possible	- All economies already make provisions in their public procurement legislation for contracting authorities to divide public procurement into lots; however, this is not obligatory in any of them, and those contracting authorities who decide not to use lots do not have to justify their decision. Implementing the provisions of the 2014 EU procurement directives will introduce an obligation to substantiate a decision on non-division into lots.	Moderate
Reduce the administrative burden of participating in public procurements	- Economies have diminished the administrative burden of participating in public procurements.	Moderate
Establish an impartial and independent review body where not yet established	- Economies have already established impartial and independent review bodies in accordance with standards required by the EU Remedies Directives.	Moderate
Increase the use of non-price criteria for awarding contracts, to give public buyers best value for money	- Across the region there is a general trend away from applying non-price criteria. However, adopting the new public procurement provisions based on the 2014 EU procurement directives should lead to some progress, as they establish the principle of awarding contracts on the basis of the most economically advantageous offer and encourage the application of non-price criteria.	Moderate
Tackle the problem of late payments to contractors	- All the economies have regulations directly tackling this issue.	Advanced

Introduction

Easy access to public procurement markets can help small and medium-sized enterprises (SMEs) to unlock their potential for job creation, growth and innovation, while having a positive impact on the economy. Greater SME involvement in public procurement also allows contracting authorities to broaden their potential supplier base, securing the positive effects of greater competition for public contracts as a counterbalance to dominant market players (SIGMA/OECD, 2016[1]).

In order to make public procurement of all sizes as accessible as possible to SMEs, in 2008 the European Commission (EC) published the *European Code of Best Practices: Facilitating Access by SMEs to Public Procurement Contracts* (EC, 2008[2]). The code highlights and details a number of practices for tendering within the EU regulatory framework that optimise SME participation and ensure equality of opportunity. It also describes good practices and provides guidance to EU Member States and their contracting authorities in order to fully exploit the potential of the EU public procurement directives[1]. The code aims to provide a level playing field for all economic operators who wish to participate in public tenders.

Public procurement is an area where SMEs face particular difficulties. Procedural rules are often complex and the effort needed to take part seems too great, given the uncertain outcome. While this is a matter of concern for all companies, SMEs are particularly affected. They often lack the resources and know-how to deal with burdensome administrative requirements and cannot afford to spend money and time on a potentially fruitless exercise. As a result, SMEs often shy away from participating in calls for tenders. Even where SMEs are prepared to tender, they are often prevented from doing so by unfavourable conditions. In many cases, the size of the contract is simply too large for a small company to implement, even though SMEs would be capable of offering good value for money otherwise. In other cases, SMEs are excluded by disproportionate qualification or financial requirements which are not justified by the nature and size of the contract in question. Last but not least, where SMEs do manage to get a contract and implement it successfully, late payments – a widespread problem in the public sector – are particularly harmful to them.

Increasing the generally low participation rate of SMEs in public procurement would boost competition and could result in lower prices. SMEs are often particularly innovative and may offer solutions that larger companies cannot provide. The obstacles to participation are not insurmountable; in fact, a few relatively simple legislative changes can greatly improve the situation for SMEs, if they are supported by a favourable mindset. Governments can increase SME participation through a number of measures. In many cases, very large contracts are not justified for goods, services or works, and purchases could take place through a number of smaller contracts or by encouraging subcontracting instead. Legislation may prescribe the division of contracts into lots by default, putting the burden of proof onto the contracting authorities to provide good reasons for any deviation from that rule. Likewise, it would be reasonable and proportionate in most cases to limit tests for the financial ability of tenderers to the minimum necessary and tenderers should be allowed to submit joint bids to meet the requirements together. The administrative burden of submitting a tender can also be reduced, for instance by not requiring supporting documents during the tendering process. SMEs would benefit from electronic procurement, as this would make information more easily available at a lower cost and facilitate the submission of bids. Legislation setting strict deadlines and penalties for late payment by the public sector is a first step towards avoiding late payments to contractors, though not sufficient on its own.

Assessment framework

Structure

This chapter analyses the policies and tools in place to improve SMEs' access to the public procurement market across the six Western Balkan economies and Turkey. The dimension focuses on the 20 indicators listed in Annex 6.A at the end of this chapter, divided into three thematic blocks: 1) policy and regulatory framework; 2) implementation; and 3) monitoring and evaluation (Figure 6.2).

The indicators assess, among others, the extent to which public authorities take into account SMEs' needs in the procurement process, including division of public procurement into lots, participation of groups of economic operators in public procurement procedures, and qualifications requirements related to and proportionate to the object and value of procurement.

Other indicators measure whether:

- relevant institutions have a specific strategy for supporting SMEs in public procurement
- public procurement is open to foreign enterprises (either SMEs or large enterprises) to ensure a fair level of competition
- information on public procurement is available centrally and free of charge for all participants
- public institutions offer training and a help desk to interested firms
- public institutions use electronic procurement, from providing information on procurement opportunities online, to the electronic submission of tenders
- there is legislation in place imposing strict deadlines for payments from public authorities, and penalties for non-compliance.

Additionally, outcome indicators (see Figure 6.2) were applied in order to check the extent to which the policies implemented by the government are having the intended results. However, these have not been taken into consideration in the scoring because the required information was, in most cases, not provided or not available.

Figure 6.2. Assessment framework for Dimension 5b: Public procurement

Public procurement

Outcome indicators
Share of SMEs in the total value of public contracts awarded
Share of SMEs participating in public tenders
Average delay in payments from public authorities (in days)
Share of SMEs submitting proposals in a public electronic tender system (e-procurement)
Share of contracts awarded to foreign economic operators
Value of contracts awarded to foreign companies as a share of the total value of procurement in the country

Thematic block 1: Policy and regulatory framework	**Thematic block 2**: Implementation	**Thematic block 3**: Monitoring and evaluation

Note: The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results, and they have not been taken into consideration in the scoring.

This assessment, like the one conducted in 2016, is not a comprehensive assessment of public procurement systems in the Western Balkan economies and Turkey (WBT). It only focuses on those elements in the legislative framework and practice in the field of public procurement that are relevant to SMEs. Issues such as the integrity and fairness of public procurement procedures, detecting and combating corruption practices, favouritism, and conflicts of interest are outside its scope. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A at the end of this report.

Other questions in the questionnaire also sought the following statistical data:

- the share of public procurement divided into lots
- the share of public procurement for which economic operators submitted joint offers (as groups of economic operators or consortia).

The questionnaire asked also whether the economies' relevant institutions collect and analyse the following statistical data:

- the share of public contracts awarded to SMEs
- average payment delays in public procurement
- the share of public contracts awarded to foreign economic operators.

Face-to-face interviews with SMEs and chambers of commerce were part of the assessment framework. The purpose of those interviews was to compare the responses received from governments with the information provided by independent consultants and to get additional information (see Annex C).

Key methodological changes to the assessment framework

Since the questionnaire in 2016, the 2019 assessment has evolved to capture more information on various issues related to SMEs' participation in public procurement procedures (Table 6.2). For example, it includes new questions on the strategy and policy framework for supporting SMEs in public procurement. A few general questions have been broken down to obtain more meaningful information on rules and practices, such as for dividing public procurement into lots; requirements for documentary evidence provided by third parties and self-declarations of economic operators; participation by groups of economic operators (consortia) and potential limitations; requirements for tender securities/guarantees, such as their maximum amounts, forms in which they may or must be submitted and conditions of their return or forfeit; and subcontracting and its potential limitations. Finally, questions about the limitations on foreign companies' participation in public procurement procedures (such as domestic preferences) have been reformulated and/or removed. The total number of indicators has been increased from 7 to 20.

This assessment also put more emphasis on implementing legal provisions and monitoring and evaluating their application. The emphasis on weighting scores has also changed: the weight of implementation was increased from 45 to 50%, while the weight of the policy and regulatory framework was reduced from 35 to 30% (see Annex 6.A).

Table 6.2. Key changes in the composition of Dimension 5b

	Key changes since 2016 assessment
Change 1	This assessment requests more information on general issues of SME participation in public procurement procedures, in particular strategic and policy framework to support SMEs' participation in public procurement
Change 2	Questions on limitations to foreign companies' participation in public procurement procedures were reformulated or removed
Change 3	The number of indicators was increased from 7 to 20
Change 4	The weights of the thematic blocks in the overall scores have been altered. Greater focus has been placed on implementation (5% increase in the allocated weight).

Analysis

Performance in public procurement

Outcome indicators play a key role in examining the effects of policies and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension (see Figure 6.2) are designed to assess the Western Balkan economies and Turkey's performance in public procurement and particularly in enabling SMEs to participate in this key market. This analysis section starts by drawing on these indicators to describe the economies' performance.

In OECD countries, public entities and bodies spend large sums of money purchasing goods, services and works. Public procurement represents, on average, 12.0% of the GDP of OECD countries and almost one-third of government expenditure. This share is lower in the WBT economies, according to the data provided by respective central procurement offices in their annual reports. It is estimated that the value of contracts awarded in the Republic of North Macedonia amounted to 10.0% of gross domestic product (GDP) in 2016 (EC, 2008[3]). In Montenegro, public procurement represented 12.33% of GDP (in 2017); but the figures are much lower in Bosnia and Herzegovina (7.84% in 2016, although in 2012 it was 12.95%), Serbia (7.68% in 2017), Kosovo* (7.35% in 2017) and Albania (7.0% in 2017) (Public Procurement Administration of Montenegro, 2018[4]; Public Procurement Agency of Bosnia and Herzegovina, 2017[5]; Public Procurement Office of Serbia, 2017[6]; Public Procurement Regulatory Commission of Kosovo, 2018[7]; Public Procurement Agency of Albania, 2018[8]).

Despite the potential benefits SMEs could gain from public procurement markets, their participation is lower than their overall weight in the economy. In other words, the SME success rate (expressed as the share of contracts won in procurement procedures) is lower than it should be, given the share of SMEs in the economy. For example, in North Macedonia in 2016 there were 6 902 companies registered in the Electronic System of Public Procurement (ESPP, an electronic public procurement portal), of which 2 265 were micro companies and 4 027 SMEs (Public Procurement Bureau, 2017[9]).

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Micro companies and SMEs therefore together represented more than 91% of all economic operators using the ESPP. Micro, small and medium-sized enterprises combined won the vast majority of contracts (83% of those awarded in 2016), but in terms of the value of contracts won their share of the procurement market was smaller, at 64% (Public Procurement Bureau, 2017[9]).

The assessment results show that all seven economies guarantee a review for aggrieved economic operators by independent procurement review bodies. This is available to economic operators whose interests in specific public procurement contracts were breached by contracting authorities' omissions or actions that were not consistent with the law. Access to those bodies is not hindered by unrealistic time periods for submitting complaints or excessively high costs. Relevant public procurement rules also require review body decisions to be made as quickly and smoothly as possible, and to be enforceable. Table 6.3 presents the scores for the WBT economies for public procurement.

Table 6.3. Scores for Dimension 5b: Public procurement

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Policy and regulatory framework	3.51	2.89	4.76	4.29	4.53	3.59	3.90	**3.92**
Implementation	4.28	4.28	4.28	5.00	3.39	3.57	3.57	**4.05**
Monitoring and evaluation	2.50	2.85	2.67	3.57	4.16	3.39	3.57	**3.24**
Weighted average	**3.69**	**3.57**	**4.09**	**4.49**	**3.87**	**3.52**	**3.66**	**3.84**

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

Policy and regulatory framework (Thematic block 1)

In order to attract SMEs to the public procurement market, the WBT economies need to establish stable and solid legal frameworks for public procurement. Transparent, fair and competitive rules, consistently applied, are essential. Potential bidders need to know what rules to respect, where to find relevant information, what requirements and conditions to fulfil and so on. The purpose of this section is to assess the policy and regulatory framework for public procurement, especially those activities and legal provisions that are most relevant to SMEs. It asks whether the WBT economies have adopted strategic documents on activities specifically for SMEs and whether their public procurement regulations provide solutions relevant to SMEs.

There are multi-year public procurement strategies in all the economies

One key element of the public procurement policy framework is a multi-year strategic document setting out which activities should be undertaken by relevant institutions in order to improve how the system works.

All the assessed economies have adopted multi-year national strategies for developing their public procurement systems. Although none of the economies has a strategy dedicated exclusively to the needs of SMEs in public procurement, most dedicate some of the activities envisaged in their public procurement strategies to SMEs, such as simplifying (streamlining) contract award procedures, reducing administrative red tape, and providing training and consultation.

For example, in Bosnia and Herzegovina the Public Procurement Strategy states that amendments to the Public Procurement Law (PPL) should pay particular attention to SMEs' situation in the public procurement market. They should also define elements which would improve SMEs' participation in public procurement procedures. In particular, according to the strategy, training on public procurement and developing electronic procurement should take SMEs' specific needs into account.

Foreign bidders do not always have the same access as domestic ones

One of the cornerstones of a public procurement system is the principle of equal treatment for all economic operators which have the capacity and resources to provide goods or perform services for the public administration, regardless of their origin or organisational form.

Most WBT economies provide for equal treatment of foreign companies in public procurement: economic operators enjoy free access to public procurement procedures regardless of the country of their origin, while domestic suppliers are not given privileged treatment. However, Bosnia and Herzegovina, Serbia, and Turkey outline "domestic preferences" in their public procurement provisions, i.e. preferential treatment for offers submitted by domestic economic operators.

In Bosnia and Herzegovina, the PPL makes it mandatory to apply preferences to domestic bidders via a special implementing regulation adopted by the Council of Ministers.[2] Accordingly, prices given in bids submitted by domestic bidders are calculated with an added preference factor: 10% for procurement procedures in the period 2017-18 and 5% until the end of 2019. Only domestic bidders – understood as natural or legal persons resident in Bosnia and Herzegovina, and established in accordance with the economy's binding regulations – have access to this preferential treatment. However, according to the 2013 Stabilisation and Association Agreement (SAA) between Bosnia and Herzegovina and the European Union (EU), companies from the EU not established in Bosnia and Herzegovina should have equal access to the domestic public procurement market no later than five years after the entry into force of the agreement (Article 74, No. 4) (EC, 2015[10]).

Serbia's Public Procurement Law also provides for mandatory domestic preferences. If a contract award is based on the criterion of the most advantageous tender, and tenders were submitted by both domestic and foreign bidders to provide services or perform works, the contracting authority should choose the most advantageous domestic bid. However, the difference in the final sum of weighted points between the most advantageous bids of a foreign and a domestic bidder should not be more than five points in favour of the foreign bidder. If the contracting authority applies the criterion of the lowest offered price, the contracting authority must select the domestic bidder, provided that the price offered is not more than 5% higher than the lowest price offered by a foreign bidder. The new PPL, a draft of which is being processed at the time of writing, will not provide for domestic preferences, ensuring equal treatment of all foreign suppliers. However, until the new PPL is adopted, the current preferences must be applied, in accordance with Serbia's international obligations. Since the 1 September 2018, when the transitional period provided in the SAA between Serbia and the EU expired, tenders submitted by companies from EU countries benefit from the same preferential treatment as Serbian companies, against companies from non-EU countries.

As for Turkey, the PPL stipulates two types of domestic preference: 1) the right to exclude foreign suppliers from public procurement procedures; and 2) a margin of preference in favour of domestic suppliers when evaluating tenders. First, the contracting authorities may decide that foreign economic operators are not allowed to participate in a given procurement procedure (an option left to the discretion of contracting authorities). Second, a price advantage of up to 15% should be given in favour of Turkish bidders in services and works, and to bidders (both domestic and foreign) offering Turkish products in procedures involving the supply of goods. Foreign bidders can also benefit from the price advantage if they obtain a domestic goods certificate for the products they produce in Turkey, or offer products with a domestic goods certificate. For tenders with the same value at the evaluation stage, a preference may be given to the supplier whose offer has more Turkish content. The compulsory domestic preference margin (a price advantage of up to 15%) is applied to goods procurement procedures for medium- and high-technology products. In 2015, the Ministry of Industry and Technology produced a list of these products. The list is updated in January of each year following consultations with enterprises in the sector and is reported to the public procurement authority.

Large procurement contracts can be divided into lots

One of the instruments contracting authorities can use to improve SMEs' chances in public procurement is to divide large but heterogeneous contracts into smaller chunks, or lots, which are better suited to SMEs' capacities (SIGMA/OECD, 2016[11]). This instrument is now explicitly provided for in the 2014 EU procurement directives.

All the assessed economies allow procurement contracts to be divided into smaller lots that are more accessible to SMEs. In Albania, the legislation encourages division into lots in order to increase SME participation in procurement procedures;[3] however, this is not obligatory. In Bosnia and Herzegovina, the PPL allows contracting authorities to divide public procurement contracts into lots, but there is no obligation to do so. When procurement is divided, then all the lots must be marked in the bidding documentation in a way that allows bidders to submit bids for one lot, several lots or all lots. The contracting authority needs to clearly and precisely define in the bidding documentation the conditions and manner for submitting bids for lots. Public procurement contracts should be concluded separately for each lot. If one bidder is successful for two or more lots, a single contract may be concluded. Contracting authorities may also limit the number of lots for which bidders may apply. In this case they must reject tenders from bidders who submitted tenders for more lots than they were allowed to. In practice, according to national authorities, division into lots is applied to 25-40% of procurement procedures. The Serbian Public Procurement Office annual report for 2017 concluded that this tool improves SMEs' access to the public procurement market (Public Procurement Office of Serbia, 2017[6]). It also reported that the number of concluded procurement contracts that were divided into lots rose from 51% in 2013 to 64% in 2017.

Late payments to contractors are regulated

One of the problems economic operators face in public procurement are late payments by public institutions for services performed or supplies delivered. Payments which are not made promptly pose an additional risk for SMEs, and affect them more than larger enterprises; it can severely affect their liquidity and in extreme cases force them out of the public procurement market.

All economies set maximum time periods for payments in public procurement and impose penalties for late payments. In Albania, contracting authorities are required by law to pay their contractors within certain time limits:[4] a maximum of 30 days for public authorities provided that the contract or other legal provisions do not state a different time period. The law gives the creditor the right to interest if payment is delayed.

In Bosnia and Herzegovina, legal provisions in both entities (the Federation of Bosnia and Herzegovina and the Republika Srpska) also require contracting authorities to pay their contractors within certain time limits. The deadline for paying economic operators is 60 days. If this period is not respected, economic operators can claim financial penalties or other comparable sanctions.

In Montenegro, the time period for payment is 30 days from the day that goods are delivered or services performed. A contract may allow longer, but no more than 60 days. Economic operators who have fulfilled their obligations to the contracting authority are entitled to statutory interest rates in the event of late payment.

Advance payments by contracting authorities – i.e. payments made while the contract is being executed – are especially beneficial to economic operators, particularly SMEs. Some economies explicitly allow for this. For example, in North Macedonia the contracting authority may provide an advance payment, but this cannot exceed 20% of the public contract value for the contracting authorities. Prior to the advance payment, the contracting authority requires a bank guarantee from the contractor for the amount agreed. In Montenegro, public procurement provisions also allow for advance payments to contractors (suppliers). However, advance payments are also subject to the contractors submitting a special guarantee.

Participation conditions in all economies are non-discriminatory and proportionate

In accordance with EU procurement rules and good international practice, any requirements imposed by contracting authorities on economic operators who would like to apply for public contracts should be non-discriminatory, transparent and related to the object of the public procurement in question. Excessive requirements on economic operators, especially if not justified by the complexity of the object of procurement, would deprive SMEs of a chance to participate in the public procurement market.

All the assessed economies require procuring entities to set participation requirements that are non-discriminatory, related to and proportionate to the object and value of procurement. In Albania, economic operators participating in a procurement procedure should fulfil the criteria deemed necessary by the contracting authority, provided that those criteria are proportionate to the nature and size of the contract, and non-discriminatory. In Bosnia and Herzegovina, the bidding documentation should define the minimum criteria required for candidates/bidders to qualify, in terms of personal capacities, economic and financial standing, and technical and/or professional ability. These minimum requirements, and the documents required to prove them, must be proportionate and relevant to the procurement subject matter. The requirements must not have a restrictive effect on competition and must be clear and precise. The contracting authority may only request from the candidates/bidders the evidence necessary to establish whether or not they meet the qualification requirements. In North Macedonia, contracting authorities are not allowed to apply requirements related to suppliers' economic and financial standing, or their professional or technical ability, that are not proportionate to the contract's subject matter.

In Kosovo, a contracting authority may require economic operators to submit evidence demonstrating that they meet the minimum economic and financial requirements specified in the tender dossier and the contract notice. The minimum annual turnover required from the economic operators should not exceed two times the estimated contract value. Requirements for the suppliers' economic situation must be expressed in figures and refer to no more than the last three financial years. Where bidders are required to show their specific minimum turnover in a field covered by the contract, this turnover should not be required to exceed 1.5 times the anticipated contract value. Economic operators should, as a general rule, be permitted to satisfy this requirement by submitting, as relevant and appropriate, one or more of the references listed in the PPL. However, if for any valid reason, the economic operator is unable to provide the references requested by the contracting authority, they can demonstrate their economic and financial standing by any other document that the contracting authority, using reasonable discretion, considers appropriate. In Montenegro, a contracting authority calling for competition may add optional as well as mandatory requirements. Optional requirements may refer to candidates or bidders' financial and economic standing as well as professional and technical capability, including human resources. In this case the contracting authority should indicate in the procurement notices which documents and certificates should be submitted by candidates or bidders together with their requests for participation or bids. The PPL lists the proof that economic operators can supply to fulfil contracting authorities' requirements.

In Turkey, the PPL specifies that economic operators must submit their economic, financial, professional and technical qualifications in order to prove they are able to perform the contract in question. The PPL also defines the conditions under which economic operators are deemed ineligible and should be excluded from public procurement procedures. The contracting authorities' tender documents and notices in invitations for procurement or pre-qualification should specify documents required for evaluating economic operators' qualifications, in accordance with the procurement subject matter. Serbia has adopted some good practices for simplifying the way that economic operators must prove that they satisfy the contracting authorities' requirements (Box 6.1).

Box 6.1. Good practice in simplifying evidence requirements in Serbia

In Serbia, the Public Procurement Law (PPL) offers a number of solutions that help SMEs participate in public procurement procedures. For instance, the contracting authority may stipulate in the tender documents that instead of submitting documents or certificates to fulfil all or some individual requirements, the bidder may make a statement confirming that it fulfils the requirements, under full criminal and material liability for false statements (except for when proving that the bidder has valid permission to conduct a given activity, if required). Only the bidder whose bid is evaluated as the most advantageous is asked to substantiate the statement by supplying the originals or certified copies of all or some of the proof, before the contracting authority decides on awarding the contract. The contracting authority cannot ask a bidder to supply this proof again when it already has adequate evidence from the same bidder from previous public procurement procedures.

The contracting authority also cannot refuse a bid on the grounds that it does not contain evidence defined by the PPL or by tender documents if the bidder included in their bid the address of a publicly available website containing the requested data. Finally, in order to enhance SME participation, the PPL allows enterprises to use the Register of Economic Operators, held by the Agency for Economic Registers (www.apr.gov.rs). Economic operators which appear in the register do not have to provide the relevant evidence but merely prove that they are in the register, or supply the Internet address where the relevant information is publicly available. Since registration requires the same type of documents from economic operators as those participating in public procurement procedures, proof of registration is sufficient.

Source: Public procurement law, Official Gazette of the Republic of Serbia, No. 124 of 29 December 2012, No. 14 of 4 February 2015, No. 68 of 4 August 2015, www.ujn.gov.rs/en/propisi/zakon.

Tender and performance securities are all regulated

Another barrier to public procurement opportunities are instruments which are supposed to ensure that a tender is "serious" (tender securities), or to protect contracting authorities from a contract being implemented in a way that is untimely or inappropriate (performance guarantees). If their amounts are excessively high and not proportionate to the value of the contract such instruments may represent unsurmountable obstacles to SMEs for accessing public procurement.

All the assessed economies have rules regulating the amounts of tender and performance securities, the form they take, and the cases in which they should be either returned or retained. For example, in Albania the PPL allows the contracting authorities to request bidders to submit a tender security with their tenders for public procurement procedures with an estimated value above the high-value threshold. The decision as to request a tender security or not is left to the discretion of contracting authorities. The security amount should be proportionate to the estimated value of the procurement contract. The contracting authority requiring the tender security should specify in the tender documents all the requirements on the nature, form, amount and other essential conditions of the bid security. Some actions or omissions by bidders will result in forfeiting the security: withdrawing or modifying the bid after the submission deadline, or before the deadline, if this is prohibited in the tender documents; refusing to sign the procurement contract; failing to provide the performance bond when the contract has been awarded; or failing to comply with any other condition specified in the tender documents prior to signing the contract. Further details on tender security are given in the implementing rules. The tender security requested may not exceed 2% of the estimated value of the limit fund.

In Bosnia and Herzegovina, contracting authorities may request appropriate bid securities to guarantee bids but only if the procurement value is more than BAM 100 000 (Bosnia and Herzegovina convertible mark; around EUR 51 000). The PPL specifies the forms in which tender securities may be submitted. When the procurement value is equal to or more than this value, the bid security may not exceed 1.5% of the estimated contract value. For group bids, security must be submitted that corresponds to the requested amount, regardless of whether it is submitted by one member, several members or all members of the group of bidders. Requested performance securities may not exceed 10% of the contract value.

In North Macedonia, the contracting authority can require tenderers to provide a tender guarantee in the form of a bank guarantee or deposited funds and must state this in the tender documentation. The amount must not exceed 3% of the tender value. The tender guarantee should be submitted together with the tender in original form. The contracting authority can retain the tender guarantee if the tenderer:

- withdraws its tender before the expiry of the validity period of the tender guarantee
- fails to accept correction of arithmetical errors made by the commission
- fails to sign the public contract after being selected as winner
- fails to provide the performance guarantee, if required by the contracting authority in the tender documentation.

The contracting authority may require the winning tenderer to provide a performance guarantee (of proper execution of a contract) in the form of a bank guarantee which can range from 5% to 15% of the public contract value. However, this cannot be requested in design contests or procurement procedures for consultant services. Where the economic operator fails to submit a tender or performance guarantee, the contracting authority will issue a negative reference. This is published on the Electronic System of Public Procurement (ESPP) website and results in the automatic exclusion of an economic operator from participating in procurement procedures for one year from the date of publication.

In Kosovo, a contracting authority can require a tenderer to submit a tender security for a large- or medium-value contract. The tender security should be forfeited if:

- the contracting authority determines, on the basis of objectively verifiable evidence, that the tenderer has provided materially false or misleading information to the contracting authority
- the tenderer withdraws its tender after the deadline for tender submission, but before the tender validity period expires as specified in the tender dossier
- the tenderer is awarded a contract on the basis of its tender, and then refuses or fails 1) to submit any required performance security specified in the tender dossier; 2) to comply with any other condition specified in the tender dossier for signing the contract; or 3) to execute a contract that conforms to the terms and conditions specified in the tender dossier.

Where a tender security is requested, it should be no less than 1% and no greater than 3% of the estimated value of the public contract or design contest, but in any case should be at least EUR 1 000.

In Montenegro's public procurement procedures, the contracting authority can require economic operators to submit tender securities, good performance guarantees, guarantees of advance payment and other types of guarantees. These are obligatory if the estimated value of the contract exceeds EUR 30 000. The tender security may not exceed 2% of the estimated value of public procurement, while the good performance guarantee requested by the contracting authority may not be higher than 5% of the contract price.

In Serbia, contracting authorities can specify in tender documents how bidders should guarantee good performance in a public procurement procedure. They can also stipulate bidders' contractual obligations, or in which cases an advance payment should be refunded. The contracting authority cannot request a tender security or performance guarantee exceeding 10% of the offered price – excluding value-added tax (VAT) – or of the contract value, except for advance payments. A performance guarantee should be issued by the bank and should not exceed 10% of the contract value. The bidder should provide a performance guarantee to the contracting authority at the time the contract is concluded, or within the period determined by the contracting authority, but not later than the first delivery. The performance bank guarantee will be valid for at least five days after the deadline for final completion.

In Turkey, bidders can determine the amount of tender security they submit with their bids, but it cannot be less than 3% of the proposed price. Tender securities are not mandatory for consultancy service procurements. They may be submitted in whatever form the bidder chooses, so long as payment is in Turkish lira and they include letters of guarantee from banks and special financing institutions, or Domestic Borrowing Bills issued by the Under Secretariat of the Treasury, and documents arranged for replacing these bills. In order to ensure that the commitment is carried out in accordance with the provisions of the contract and tender documents, the successful tenderer is required to submit, as a condition for signing a contract, a performance bond of 6% of the contract value. For consultancy services, a performance bond is not required, but a deduction of 6% from each subsequent payment is retained as a guarantee instead.

Joint bidding is allowed, with some economies stipulating how bidder groups are organised

Participants in public procurement procedures may be both legal and natural persons. Legal provisions for public procurement should not discriminate between the different organisational forms that economic operators may decide to adopt, and the contracting authorities should not insist that suppliers should take a specific form in order to participate in public procurement procedures. One instrument that increases SMEs' chances in public procurement is joint bidding. This allows a number of suppliers who do not individually meet contracting authorities' requirements to combine their resources and capacities to fulfil them.

All the assessed economies allow groups of economic operators to submit tenders or applications in public procurement, and hardly any require them to take a special form in order to participate. In a few cases, however, economic operators who want to submit joint tenders do need to adopt a special organisational form, according to the implementing rules. In Albania, for instance, these rules stipulate that a consortium should be officially established by means of a notarised declaration between the participating economic operators, each stating the size and nature of their contribution. In Turkey, access to public procurement is open to natural or legal persons, as well as groups of economic operators (joint ventures) formed by natural or legal persons. The PPL gives more detailed requirements that must be satisfied by these groups, however. Joint participation can take the form of either a business partnership or a consortium; the distinction being that members of a business partnership carry out the whole business jointly, having equal rights and responsibilities, while members of a consortium separate out their rights and responsibilities according to their expertise, in order to carry out relevant parts of the business. Business partnerships may participate in any kind of procurement. However, where different types of expertise are needed, the contracting authorities should indicate in tender documents whether or not a consortium is allowed to submit tenders. The contracting authority should state whether or not groups of economic operators are allowed to participate in the tender documents at the outset of the procurement procedure.

Subcontracting is permitted, although the share may be limited

Another instrument that favours SMEs is subcontracting: the winning bidder who signs the contract allows a part or parts of it to be performed by third parties (subcontractors) (SIGMA/OECD, 2016[12]). In this way SMEs who would not be able to carry out the whole contract get the chance to provide their services for smaller parts better adjusted to their capacities.

All the economies provide for the general possibility of subcontracting a part or parts of a contract to third parties. Some economies underline that subcontracting should be allowed in order to make it easier for small and medium-sized economic operators to participate. Therefore in principle economic operators are allowed to subcontract a part of the contract they were awarded. Most of the economies, however, limit the share of the contract that may be subcontracted to between 30 and 50%. In Albania, the share of the contract that is subcontracted must be proportionate to the value of the contract and should not exceed 40% of the overall contract value. In Kosovo, while the PPL does not set limits on the share of subcontracting, the operational guidelines set a limit of 40% of the contract value. In Montenegro, subcontracted parts cannot exceed 30% of the total value of the tender. In Serbia, the limit is 50% of the contract value.

Implementation (Thematic block 2)

Even the best-conceived legal provisions will not be enough to ensure that SMEs have access to public procurement if they are not implemented and (correctly) applied. The purpose of this thematic block is to assess how public procurement provisions are implemented in practice, focusing especially on disseminating information, the support and training provided by public institutions, and the use of electronic procurement.

Procurement opportunities are publicised free of charge

Access to public procurement by economic operators, particularly SMEs, would be extremely difficult – if not impossible – if they were not informed in advance by contracting authorities about prospective procurement opportunities. Providing information about plans to award contracts is therefore vital.

All the WBT economies provide information free of charge to economic operators about procurement opportunities (procurement notices, procurement documents) and almost all disseminate this information centrally. Only Kosovo declared in its questionnaire that dissemination of this information is not centralised. Information on procurement opportunities (contracts to be awarded) is available on the websites or portals of the central institutions responsible for public procurement.

In Serbia, the Public Procurement Office (PPO) is responsible, among other things, for maintaining its public procurement portal. This portal publishes all the relevant information about public procurement in Serbia: contracting authorities' public procurement plans, procurement notices and tender documents on concrete public procurement procedures. Access to the portal is free of charge and does not require previous registration. The portal provides information not only on high-value procurements but also lower-value contracts, which may be of more interest to SMEs. It was improved in 2015 with new search tools and the option of searching in English. Further improvements are planned in the form of fully electronic public procurement. In Montenegro, the PPO maintains a public procurement portal that publishes information about public procurement procedures such as public procurement plans and their amendments, procurement notices, tender documentation, decisions on the qualification of economic operators, decisions on the selection of the most favourable bid, decisions on the termination of the public procurement procedure or annulment of the public procurement procedure, the public procurement contracts, and other information required by law.

Training in public procurement, including for SMEs, is available in most economies

Economic operators do not just need information about where and when to apply for public contracts, but also how to do so. They need to know that participation in public procurement procedures requires them to respect certain formal procedural rules. Economic operators, in particular SMEs, could benefit from practical training in applying those rules, adjusted to their needs and capacities.

Most of the economies provide training to economic operators on public procurement issues, including to SMEs specifically. Only Albania and Montenegro declared that no public procurement training is offered to SMEs by central institutions. Turkey stated that the Public Procurement Authority provides training to all types of economic operators, but offers no special treatment for SMEs.

Box 6.2 has some good examples of how this is done in other countries.

Box 6.2. Good practice in public procurement training

A number of OECD countries organise training sessions and briefings to discuss changes to public procurement rules or the introduction of a new public procurement framework.

- In Poland, after every significant change in the public procurement regulations, the Public Procurement Office organises regional conferences and seminars at various locations across the country both for contracting authorities and economic operators. The most recent training events were organised following the 2017 implementation of the 2014 EU procurement directives (www.uzp.gov.pl).
- Denmark organised training for government employees on implementing the 2016 Public Procurement Act.
- Slovenia carried out a roadshow and theme-based education of contracting authorities and economic operators in several regions of the country following the adoption of a new public procurement law in 2016 (Law ZJN-3) (www.djn.mju.gov.si).
- In Ireland, the Office of Government Procurement organises annual conferences covering all the latest policy developments that are relevant for suppliers (ogp.gov.ie).

Source: OECD (2018[13]) *SMEs in Public Procurement: Practices and Strategies for Shared Benefits*, https://doi.org/10.1787/9789264307476-en.

Public procurement offices all offer some support to SMEs

Support offered by public procurement offices in the assessed economies takes the form of telephone help desks organised by central procurement institutions; providing advice in response to questions raised by economic operators; publishing guidance or manuals for contracting authorities, and advising them how to enhance SME participation in public procurement procedures; and direct support dedicated to economic operators. For example, in 2017 Montenegro's Public Procurement Office (PPO) published the *Guide to Promoting the Participation of Small and Medium Sized Enterprises at the Public Procurement Market in Montenegro*, which will be part of its training programme. The PPO also organised four roundtable meetings in 2016 dedicated specifically to SMEs participating in public procurement procedures. In 2016 Serbia's PPO published the *Guidelines for Increasing Participation of Small and Medium Enterprises in Public Procurement Procedures*. The guidelines present an analysis of the obstacles faced by SMEs when trying to access public procurement and propose a number of actions and solutions to improve the situation.

Electronic procurement is allowed or required, but e-procurement levels vary

Electronic procurement makes it easier for economic operators to participate. Using digital communication between contracting authorities and suppliers, particularly to submit requests and tenders, is faster and cheaper for both parties (OECD, 2011[14]). All the assessed economies allow or oblige the use of electronic tools in public procurement.

In Albania, all procurement procedures should be conducted electronically, with the exception of negotiations without prior publication, procurement procedures with a value lower than ALL 100 000 (Albanian lek; about EUR 800), during the second phase of a design contest, contracts for consultancy services and contracts for purchasing electricity. In Bosnia and Herzegovina, the following tendering procedures are conducted in electronic form: competitive requests, open procedures, restricted procedures, and negotiation procedures with publication of notice and e-auctions.

North Macedonia is one of the most advanced economies in the use of e-procurement and has a comprehensive e-procurement system, the ESPP. Managed by the Public Procurement Bureau, the system provides the basic framework for ensuring transparency in procurement opportunities and equal access for economic operators to public procurement that falls under the PPL. Contracting authorities publish contract notices and tender documents on the ESPP for all contracts covered by the PPL, other than cases where exceptions or exclusions apply. In 2016, almost half of all procedures were conducted by e-procurement. Registration fees for the ESPP are higher for foreign economic operators than for national ones; there are reduced fees for domestic SMEs. The ESPP uses modern procurement techniques and methods to award contracts both above and below the relevant EU financial thresholds. These include e-notices, publishing and downloading procurement documents, e-submission, e-evaluation and e-auctions.

In Turkey the e-procurement system Elektronik Kamu Alımları Platformu (EKAP), established in September 2010 and managed by the Public Procurement Authority (PPA), covers all stages of the procurement cycle. All contracting authorities and a large number of economic operators are registered on the system and are using it. Registration is now compulsory for any party wishing to participate in tenders.

Most of the economies collect and store information submitted by economic operators in databases in order to reuse it in forthcoming public procurement procedures. Only Montenegro and Turkey declared they did not do this.

Examples of how SMEs' access to public procurement procedures can be facilitated by reusing previously submitted information are provided in Box 6.3.

Box 6.3. Good practice in reusing stored information on economic operators: France and Serbia

French public procurement provisions follow the "only tell me once" principle. Economic operators who take part in procurement procedures do not have to resubmit documents to prove their qualifications, if 1) they have already taken part in a procedure with the same contracting authority; 2) the contracting authority has those documents; 3) the documents remain valid and up date.

At present this solution is not obligatory for contracting authorities, and may be used if the contracting authority informs potential bidders of this possibility in procurement documents. It will become obligatory, however, where mandatory provisions for electronic procurement start to apply.

Likewise in Serbia, the contracting authority does not have to ask a bidder to supply proof if it has already acquired adequate evidence for that same bidder from previous public procurement procedures.

Sources: Article 53-II, Décret n° 2016-360 du 25 mars 2016 relatif aux marchés publics du décret n° 2016-361; Ministry of Economy (2017[15]), *Présentation des Candidatures*, www.economie.gouv.fr/daj/presentation-candidatures-2017; Public Procurement Law: Official Gazette of the Republic of Serbia, No. 124 of 29 December 2012, No. 14 of 4 February 2015, No. 68 of 4 August 2015, Article 79 (2) Public Procurement Law.

Monitoring and evaluation (Thematic block 3)

Public procurement rules and practices should be constantly monitored and regularly evaluated so that the relevant institutions can intervene and adjust them if necessary (SIGMA/OECD, 2016[16]).

This section assesses whether – in practice – access to public procurement markets by economic operators, especially SMEs, is monitored and evaluated.

Most economies collect data on participation in public procurement, but not enough on SMEs specifically

Collecting information on SMEs in public procurement enables procurement offices and other relevant institutions to remove any hindrances to their participation. Montenegro (see Box 6.4), Kosovo and Turkey collect and analyse information on such obstacles. Kosovo and North Macedonia also collect information about delays to payments in public procurement.

Some of the economies also collect and publish information specifically about SME participation in public procurement procedures. The Public Procurement Bureau in North Macedonia publishes annual reports on the functioning of the public procurement system, which include some statistical information on SMEs.

All the economies collect information on the share of contracts awarded to foreign economic operators. For example, in Bosnia and Herzegovina, according to the annual report published in 2017 by the Public Procurement Agency, in 2016 domestic suppliers obtained 98.6% of all concluded contracts (1.41% contracts went to foreign companies).

In Serbia, the share of contracts awarded to foreign companies amounted to 3.0% in 2017 and in Montenegro to 5.8%.

Both Montenegro and Belgium have published good practice documents which deal with the issue of obstacles to SMEs participating in public procurement (Box 6.4).

Box 6.4. Good practice in assessing and addressing public procurement obstacles faced by SMEs: Montenegro and Belgium

Montenegro

Supporting SMEs is one of the aspects of the public procurement system dealt with in the Montenegrin multi-year public procurement strategy. The document identifies problems and obstacles faced by SMEs that want to participate in public procurement procedures, both on their own and together with other bidders, covering the issues of responsibility, qualifications, and cumulative proving of eligibility. The strategy proposes several actions related to public procurement, including "levelling the playing field" to ensure that SMEs are not unduly disadvantaged in relation to larger competitors, and training SMEs and contracting authorities.

To strengthen SME access to public procurement systems, the strategy envisages the following measures:

- harmonising public procurement legislation with the new EU directives in this area
- initiating and promoting the use of green, social and innovative public procurement
- exchanging good practice among contracting authorities by establishing a platform for sharing experience, information and knowledge
- developing specific advice, criteria and indicators to be used in public tenders
- stimulating the integration of this criteria at the public procurement planning stage
- training SMEs to improve their capacity in public procurement
- developing guidelines and organising seminars for SMEs
- encouraging greater SME employment and development through more use of the most economically advantageous tender criterion
- training contracting authorities in creating public procurement subjects that enable better access by SMEs
- analysing the possibility of abolishing or substantially reducing the fee for reviewing contracting authorities' decisions
- waiving fees to obtain various certificates
- encouraging contracting authorities to implement public procurements by lots.

Belgium

Belgian's Federal Public Service Economy, SMEs, Middle Classes and Energy has published guidelines for contracting authorities on SME access to public procurement. They contain 12 implementation principles which should improve SMEs' chances of obtaining public contracts, including: dividing procurement into lots; publishing adequate information on public procurement opportunities; awarding contracts on the basis of an economically advantageous offer criterion; optimising electronic means of communication; ensuring adequate protection of intellectual property rights; providing feedback for bidders whose offers were not accepted; and creating proportionate minimum requirements, selection criteria, financial guarantees and methods of payment.

Sources: The Montenegrin Public Procurement Directorate (2015[17]), *Strategy for the Development of the Public Procurement System in Montenegro in 2016–2020*, www.ujn.gov.me/strategija-razvoja-sistema-javnih-nabavki-u-crnoj-gori-za-period-2016-2020-godine/; "Charte Accés des PME aux marches publics", SPF Economie, P.M.E., Classes moyennes et Energie, February 7, 2018, https://economie.fgov.be/fr/publicaties/charte-acces-des-pme-aux.

Independent procurement review bodies exist in all the economies

Even the most transparent, competitive and fair public procurement rules and procedures would be toothless without instruments to enforce them. To trust the public procurement process, suppliers need to know that when rules are not respected by public institutions, there are special mechanisms in place to force contracting authorities to respect them. This is why access to review procedures and bodies is so important for aggrieved suppliers. In accordance with the respective EU rules and good international practices, the appeals of economic operators whose rights have been breached by public bodies' illegal actions and omissions should be reviewed by independent institutions.

All the assessed economies enable economic operators to have their complaints reviewed by procurement review bodies (PRBs) which are independent both from procuring entities and economic operators. In Albania,[5] Bosnia and Herzegovina,[6] Kosovo,[7] Montenegro,[8] North Macedonia,[9] and Serbia[10] economic operators' appeals are heard by review bodies whose members are appointed for a given term by parliament.

In Turkey, a separate department in the Public Procurement Authority (PPA)[11] deals with "appeal applications". In order to secure the independence and integrity of the PPA as the review body and to avoid conflicts with other functions of the PPA (regulatory, monitoring and advisory), there are elaborate administrative routines in place. Decisions on appeal applications are adopted by the nine members of the PPA's board, supported by public procurement experts and assistants.

Time limits for submitting complaints are mostly in line with EU requirements

Most economies regulate minimum time periods for submitting complaints that are in accordance with the relevant EU directives (Remedies Directives)[12] – although in a few cases the time periods are shorter than those required by EU law.

In Albania anyone may challenge a decision who has or has had an interest in a procurement procedure and who has been, or risks being, harmed by the decision made by a contracting authority that infringes the PPL. Appeals must be submitted first to the relevant contracting authorities. The time limit for submitting an appeal is seven days. In the second stage of the review procedure, the contracting authority's final decision can be appealed to the Public Procurement Commission (PPC).

In Serbia, a request for the protection of rights has to be filed with the contracting authority and a copy submitted to the Republic Commission. After a decision is made to award a contract, conclude a framework agreement, recognise a qualification, or to cancel the procedure, the time limit for filing a request for the protection of rights is ten days from the day of posting the decision on the Public Procurement Portal, or five days for low-value public procurement. An economic operator may submit to the Republic Commission a complaint against a contracting authority's decision within three days of receiving the decision. Since the Republic Commission is the first-instance independent procurement review body dealing with the economic operators' appeals, a three-day time period is not in line with the Remedies Directive's requirements.

All the economies have time-efficient review procedures

All the assessed economies regulate the maximum time period in which procurement review bodies should reach decisions on complaints submitted by economic operators. In most of the economies the maximum time period is slightly over two weeks: in Albania, the public procurement review body should make decisions within 15 days of receiving the complaint. This period may be extended by another 15 days if a decision cannot be finalised for objective reasons which should be stated clearly by the PPC. In Montenegro, the rulings of the procurement review body should be adopted within the statutory time limit of 15 days of receipt of the complete documentation. This time period may be extended for no more than 10 days in the event that there is a need to engage experts or obtain opinions from the competent institutions, or if the procurement documentation is complex. In North Macedonia, the State Appeals Commission should make its decision within 15 days of completing the documentation for the appeal. The same time period is applied in Kosovo. Three other economies use a longer time period. In Turkey, the review body has to conclude the review in 20 days. In Serbia, the Republic Commission should decide within 20 days from the day of receiving the complete documentation needed to establish the facts and make a decision on any request for rights protection. Finally, in Bosnia and Herzegovina, the maximum time for the Procurement Review Body to make a decision on an appeal is 30 days.

Submitting appeals is subject to fees, but they are not excessively high

All the economies require fees for submitting appeals to review bodies, but they are low enough to not hinder economic operators' access to legal protection.

Albania has no fees for submitting appeals to contracting authorities, but submitting an appeal to the Public Procurement Commission requires a fee amounting to 0.5% of the estimated procurement value. In Bosnia and Herzegovina, entry fees are also defined according to the entire public procurement value. Fees range from BAM 500 to BAM 25 000 (about EUR 256 to EUR 12 780). In North Macedonia, fees for an economic operator filing an appeal vary between the equivalent of EUR 100 and EUR 400, in addition to an administrative fee.

In Kosovo, economic operators are obliged to submit a complaint to the contracting authority before initiating a review process by the PRB. They are only entitled to seek a review from the PRB if the contracting authority has rejected the complaint. The 2016 amendments to the PPL increased these fees to 1% of the value of the estimated contract value, or in some cases of the bid, but to not less than EUR 100 and not more than EUR 5 000.

In Montenegro, fees are 1% of the estimated value of the public procurement, but cannot exceed EUR 20 000. In Serbia, complaint submission is subject to a sliding-scale fee, the amount depending on the value of the procurement and the stage of the procurement procedure at which the review was launched. Currently, the lowest fee is RDS 60 000

(Serbian dinars; about EUR 510) while the highest is 0.1% of the estimated value of public procurement or of the price offered by the winning bidder.

The way forward for public procurement

Better access to public procurement, reduced bureaucracy, more quality-oriented public purchasers and impartial review and oversight processes are all particularly beneficial to SMEs.

To achieve this, economies in the region should:

- **Further align their national legislation with EU rules and international good practices**. In particular, they should:
  - ensure that all economic operators have access to public procurement on an equal footing regardless of their origin
  - further encourage the division of procurement into lots, by requiring the contracting authorities which do not do so to justify their decision (Box 6.5)
  - remove limitations on subcontracting, such as the maximum share of the procurement contract that may be subject to subcontracting
  - lengthen the time periods for applying legal protection measures in public procurement to align with the EU Remedies Directive
  - remove obstacles to joint bidding, such as the requirement that suppliers should adopt a specific legal form to submit a joint tender
  - reduce the maximum value of economic operators' minimum yearly turnover requirement to twice the contract value, except for justified cases.

- **Reduce the administrative burden of participating in public procurement**. Bidders should only be required to submit a declaration that they satisfy the requirements of the contracting authority, and that they will provide documentary evidence as required. Supporting documents should only be required from those bidders whose offers were evaluated as the most advantageous. The mandatory introduction of e-procurement, in accordance with the requirements of 2014 EU Directives, in particular to submit tenders and requests to participate in electronic form, would also reduce bidding costs, facilitating SMEs' access to public contracts.

- **Increase the use of non-price criteria for awarding contracts** to enable public buyers to receive the best value for money. In particular, contracts must always be awarded based on the most economically advantageous tender and non-price criteria should be applied more often. Public procurement institutions should make it easier for contracting authorities to apply non-price criteria by providing them with guidelines and examples of good practice.

- **Focus on correctly implementing amended public procurement provisions** by providing consultations, assistance and training, both to contracting authorities and economic operators, especially those representing SMEs. Contracting authorities in particular should be trained in how to take SMEs' specific needs into consideration. Belgium's example (Box 6.4) could offer a template to the WBT economies for developing training materials and tailored training courses.

- **Constantly monitor and analyse the obstacles** hindering SMEs from accessing public procurement markets, including the costs of access to legal protection (i.e.

the fees paid to independent review bodies to challenge contracting authorities' decisions).

Box 6.5. Good practice in dividing procurement into lots: Portugal and France

In Portugal, the Public Contracts Code allows for public procurement to be awarded in lots. However, where contracts for supplies or services are valued at more than EUR 135 000, or works are valued at more than EUR 500 000, a contracting authority which decides not to divide the contract into lots should justify its decision. This decision may be justified when:

- the object of public procurement is technically or functionally indivisible or the division into lots would lead to major inconvenience for the contracting authority
- urgency, or technical or functional imperatives, mean that managing a single contract would be more efficient for the contracting authority.

In France, contracting authorities have been obliged to award public procurement in lots since 2006. According to the provisions currently in force, public contracts – other than for security and defence – are awarded in separate lots, except where the object of public procurement does not allow separate lots to be identified. In order to satisfy this obligation a contracting authority should define, in its description of the public procurement, the number, size (scope) and object of the lots.

Sources: Article 46A Decree-Law No. 18/2008, of 29 January, amended and republished by Decree-Law No. 111-B/2017, of 31 August; Article 32; Ordonnance n° 2015-899 du 23 juillet 2015 relative aux marchés publics, www.base.gov.pt/mediaRep/inci/files/ccp2018/CCP_consolidado_com_LEO_DL_33_2018.pdf.

Conclusions

Overall, the relevant public institutions in all the WBT economies have made progress in the area of public procurement, both in improvements to the policy and the regulatory framework, and to monitoring and evaluation. Some of the assessed economies have simplified their public procurement legislation to take SMEs' needs into account. By easing documentary evidence requirements, or allowing non-price criteria to be applied when awarding contracts, the WBT economies have reduced the administrative burden for SMEs.

On the other hand, awarding public contracts is based predominantly on price-only criteria, while non-price factors are still sparingly applied across the WBT region. This is detrimental to SMEs' chances of succeeding in public procurement procedures. Moreover, domestic preferences remain a problem in some economies. The WBT economies should also address the limitations on subcontracting, as well as barriers to joint bidding.

Implementing the recommendations put forward in this chapter will help the relevant stakeholders in the WBT economies to further reduce obstacles faced by SMEs in accessing public contracts.

Notes

[1] Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC and Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC.

[2] Decision of Council of Ministers on mandatory application of domestic preferential treatment, 4 October 2016.

[3] Albanian Rules on Public Procurement, adopted by DCM No. 914, 29 December 2014.

[4] Albanian Law No. 48/2014, "On delayed payments regarding contractual and trade obligations".

[5] The Public Procurement Commission, www.kpp.gov.al.

[6] The Procurement Review Body, www.javnenabavke.gov.ba.

[7] The Procurement Review Body, https://oshp.rks-gov.net.

[8] The State Commission for the Control of Public Procurement Procedures, www.kontrola-nabavki.me.

[9] The State Appeals Commission, http://dkzjn.gov.mk.

[10] The Republic Commission for the protection of rights in public procurement procedures, www.kjn.gov.rs.

[11] www.ihale.gov.tr.

[12] Directive 2007/66/EC of the European Parliament and of the Council of 11 December 2007, amending Council Directives 89/665/EEC and 92/13/EEC with regard to improving the effectiveness of review procedures concerning the award of public contracts.

References

EC (2015), "Stabilisation and Association Agreement between the European Communities and their Member States, of the one part, and Bosnia and Herzegovina, of the other part", *Official Journal of the European Union*, Vol. L 164/2, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A22015A0630%2801%29. [10]

EC (2008), "European code of best practices facilitating access by SMEs to public procurement contracts", *Commission Staff Working Document*, No. SEC(2008) 2193, European Commission, Brussels. [2]

EC (2008), *Think Small First: A Small Business Act for Europe*, European Commission, Luxembourg. [3]

Ministry of Economy (2017), *Présentation des Candidatures*, Ministry of Economy, Paris, https://www.economie.gouv.fr/daj/presentation-candidatures-2017. [15]

OECD (2018), *SMEs in Public Procurement: Practices and Strategies for Shared Benefits*, OECD Public Governance Reviews, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264307476-en. [13]

OECD (2011), “E-Procurement”, *SIGMA Public Procurement Briefs*, No. 17, OECD Publishing, Paris, https://dx.doi.org/10.1787/5js4vmnvwp8w-en. [14]

Public Procurement Administration of Montenegro (2018), *Godišnji Izvještaj o javnim nabavkama u CG za 2017 [Annual Report on Public Procurement in Montenegro for 2017]*, Public Procurement Administration of Montenegro, http://www.ujn.gov.me/2018/07/godisnji-izvjestaj-o-javnim-nabavkama-u-cg-za-2017-godinu/. [4]

Public Procurement Administration of Montenegro (2015), *Strategy of the Development of the Public Procurement System in Montenegro in 2016–2020*, Public Procurement Administration, Podgorica, http://www.ujn.gov.me/strategija-razvoja-sistema-javnih-nabavki-u-crnoj-gori-za-period-2016-2020-godine/. [17]

Public Procurement Agency of Albania (2018), *Annual Report: 2017*, Public Procurement Agency, Republic of Albania,, http://www.app.gov.al/about-us/annual-reports/. [8]

Public Procurement Agency of Bosnia and Herzegovina (2017), *Izvještaj o radu Agencije za javne nabavke Bosne i Hercegovine za 2016 [Report on the Work of the Public Procurement Agency of Bosnia and Herzegovina for 2016]*, Public Procurement Agency of Bosnia and Herzegovina, https://www.javnenabavke.gov.ba/reports. [5]

Public Procurement Bureau (2017), *Annual Report for 2016*, Public Procurement Bureau, Republic of Macedonia, Skopje, http://www.bjn.gov.mk/wp-content/uploads/2018/12/Godisen-izvestaj-2016_final_EN.pdf. [9]

Public Procurement Office of Serbia (2017), *Annual Report of the Public Procurement Office for 2017*, Public Procurement Office of Serbia. [6]

Public Procurement Regulatory Commission of Kosovo (2018), *Report on Public Procurement Activities in Kosovo for 2017*, Public Procurement Regulatory Commission, Republic of Kosovo, Pristina, https://krpp.rks-gov.net/krpp/PageFiles/File/2018/06/raportivjetor2017-en.pdf. [7]

SIGMA/OECD (2016), “Division of contracts into lots”, *SIGMA Public Procurement Briefs*, No. 36, OECD, Paris, http://www.sigmaweb.org/publications/Public-Procurement-Policy-Brief-36-200117.pdf. [11]

SIGMA/OECD (2016), “Monitoring of public procurement”, *SIGMA Public Procurement Briefs*, No. 27, OECD Publishing, Paris, https://doi.org/10.1787/5js4vmn81lhb-en. [16]

SIGMA/OECD (2016), “Small and medium-sized enterprises (SMEs) in public procurement”, *SIGMA Public Procurement Briefs*, No. 33, OECD, Paris, http://www.sigmaweb.org/publications/Public-Procurement-Policy-Brief-33-200117.pdf. [1]

SIGMA/OECD (2016), “Subcontracting”, *SIGMA Public Procurement Briefs*, No. 37, OECD, Paris, http://www.sigmaweb.org/publications/Public-Procurement-Policy-Brief-37-200117.pdf. [12]

Annex 6.A. Indicators for assessing public procurement policies for SMEs

This assessment of public procurement policies for SMEs was based on a questionnaire containing 20 indicators:

- Existence of a multi-year strategy that defines objective of support of SMEs in public procurement
- Access of foreign companies to public procurement procedures on equal terms with domestic bidders
- Division of public procurement into lots
- Ensuring that payments to economic operators are made on time
- Related to and proportionate to the object and value of procurement requirements
- Provisions on tender securities required from bidders
- Participation of groups of economic operators in public procurement procedures
- Subcontracting
- The share of public procurement divided into lots
- Availability of public procurement documents free of charge
- Training for SMEs offered by central institutions
- Support to SMEs offered by central procurement institutions
- Use of electronic procurement tools
- Reuse of information collected from economic operators in subsequent procurement procedures
- Share of public procurement procedure with participation of groups of economic operators
- Collection and analysis of information about obstacles faced by SMEs in access to public procurement procedures
- Collection of information on the participation of SMEs in public procurement procedures
- Collection of information on average payment delay
- Collection of information on the share of foreign companies awarded public contracts
- Access of economic operators to appeals against decisions of contracting authorities to an independent review body.

Chapter 7. Access to finance for SMEs (Dimension 6) in the Western Balkans and Turkey

This chapter assesses the policies in the Western Balkans and Turkey that support SMEs' access to external sources of finance. It starts by providing an overview of the assessment framework and progress since the last assessment in 2016. It then analyses the five sub-dimensions of Dimension 6: 1) the legal and regulatory framework, which looks at the legal and regulatory environment for creditor rights, collateralisation options, credit information systems, banking regulation and capital markets; 2) bank financing, focusing on the provision of bank loans and government support schemes to facilitate access to credit; 3) non-bank financing, which considers the legal framework and availability of alternative financing instruments such as microcredit, leasing and factoring; 4) the venture capital ecosystem, examining the financing environment for start-ups and young firms; and 5) financial literacy, focusing on efforts to broaden financial management skills among the business community and the wider population. Each sub-dimension concludes with key recommendations for helping to resolve specific challenges in facilitating SMEs' access to finance.

Key findings

- **Legal and regulatory frameworks are in place in all economies of the Western Balkans and Turkey (WBT),** facilitating access to finance for SMEs. The coverage of credit information systems has expanded in most economies, enabling more enterprises to build the credit history they need.
- **Bank lending continues to be the dominant source of finance.** As banking systems recover lending has resumed and, in some economies, commercial banks are increasingly focusing on SME lending.
- **Systemic issues remain across all WBT economies,** as loan conditions are typically less favourable for SMEs, reflecting perceived risks by lenders about their ability to repay. Public sector interventions are still common, often in the form of subsidised lending, although governments are slowly shifting towards more commercially aligned solutions such as credit guarantees.
- **Non-bank finance instruments have gained momentum as governments increasingly recognise the need to diversify sources of finance.** The activities of microfinance institutions have increased in some economies, and across the region efforts are underway to strengthen legal frameworks to support leasing and factoring. Although these steps are welcome, further efforts will be needed to support uptake of these types of finance.
- **Venture capital is still in its infancy across the Western Balkan region**, although some pioneer venture capital fund investments took place in the Republic of North Macedonia and Serbia during the reporting period. Venture capital is active in Turkey boosted by strong government support.
- **Levels of financial literacy remain low**. Both public and private sector efforts to increase financial know-how among businesses and the wider population more generally remain scattered and uncoordinated, and all the WBT economies lack a clear strategic approach to tackling shortcomings in this area.

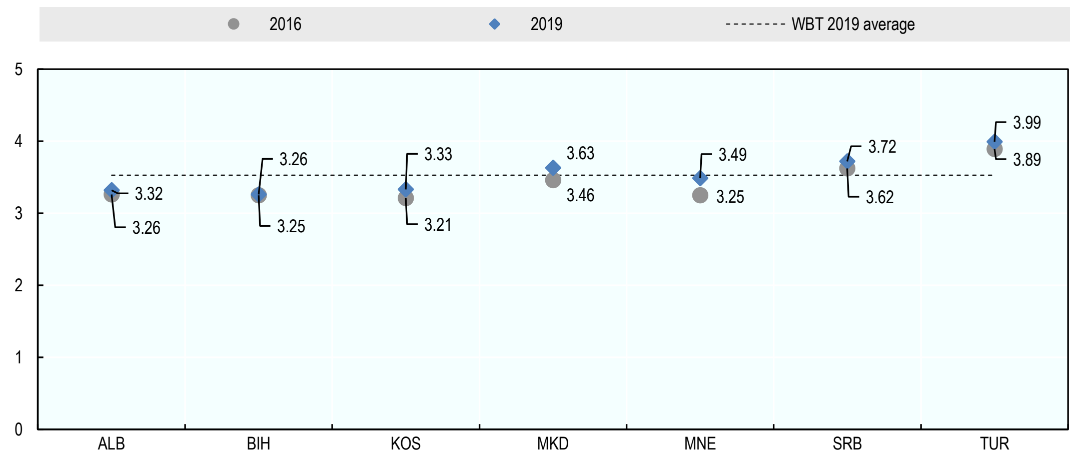
Comparison with the 2016 assessment scores

All the WBT economies have made progress in this dimension, but the speed of improvement has slowed since previous assessments. On average, the region scores 3.53, compared to 3.41 in the 2016 assessment (OECD, 2016[1]). The WBT economies perform best in the area of legal and regulatory frameworks, followed by non-bank finance. In contrast, the region continues to underperform in supporting financial literacy.

Overall, Turkey remains the strongest performer in this dimension, followed by Serbia and North Macedonia. Albania, Bosnia and Herzegovina[1] and Kosovo[*] all perform similarly, with the average score ranging between 3.26 and 3.33. Figure 7.1 summarises the region's performance and improvements since the last assessment.

[*] This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Figure 7.1. Overall scores for Dimension 6 (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

Implementation of the policy recommendations outlined in the 2016 SME Policy Index has been mixed, with economies making good progress in some areas while lagging behind in others (Table 7.1).

Table 7.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 6

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Tackle current issues in the banking sector	- Levels of non-performing loans (NPLs) have fallen in most of the Western Balkans region, albeit from high levels. NPL ratios in Turkey remain stable. - Growth recovery and structural reforms, such as stricter write-off policies and better NPL resolution procedures, have helped NPL resolution in the region. - Credit growth has revived and banks have ample liquidity, although SME lending remains subdued either due to risk perceptions on the supply side or low demand.	Moderate
Broaden the availability of credit information	- The coverage of public and private credit information registries has improved in most economies, with progress particularly evident in Albania, Montenegro and North Macedonia. - Credit information could be further enriched with data from utility providers, which would allow smaller companies and start-ups without loans to build a credit history.	Advanced
Promote policies that make funding more accessible for SMEs	- Some economies, notably Serbia and Kosovo, have made progress in preparing or launching credit guarantee schemes with international donor support, which may reduce fiscal burdens if well designed. – The budget for the Credit Guarantee Fund in Turkey has increased.	Limited

Develop non-bank finance instruments	- The availability of microfinance has increased in most economies, except Turkey and Serbia, where this type of finance remains limited due to restrictive legal frameworks. - Leasing and factoring have gained momentum in the Western Balkan region – albeit from low levels – amid increasing efforts to embed these types of finance into dedicated legal frameworks. In Turkey, both instruments remain a viable finance option for SMEs. - New legal frameworks for leasing and factoring have been passed in Montenegro and Bosnia and Herzegovina (Federation of Bosnia and Herzegovina). - Factoring reforms in Kosovo and North Macedonia are ongoing. - Venture capital remains underdeveloped in the Western Balkans, but a number of pioneer investments under the donor-supported Enterprise Innovation Fund send an important signal to international investors.	Moderate

Introduction

Access to finance is an important factor for companies, allowing them to expand their operations, modernise equipment or move into new undertakings, thereby increasing their competitiveness and helping them grow. However, ease of access to finance is typically correlated with firm size, meaning that the smaller the company, the more difficult it is to tap into external financing options. This can be for many reasons, including higher rates of informality among smaller firms, a higher perceived risk profile, fewer collateral options, and lower accounting and financial management capacity.

Access to credit was made more difficult by the financial crisis in 2008/09 in many countries, including those of the European Union (EU). Since then, conditions have eased somewhat. For example, according to EU data (EC, 2017[2]), fewer small and medium-sized enterprises (SMEs) in EU Member States now consider access to finance to be the single most important obstacle they face, although this is still perceived to be the case by 1 in 11 (down from 1 in 6 in 2009). SMEs tend to be particularly exposed to downturns in the supply of finance due to their higher risk profile and more limited collateral options; EU survey data show that access to finance is a disproportionate hindrance for younger and fast-growing SMEs (EC, 2017[2]).

Governments can play an important role in improving access to credit by creating a legal environment that provides flexible collateral options and transparent and reliable legal recourse in cases of default, and by establishing schemes to support SME access to finance. The Small Business Act for Europe recognises that governments "should facilitate SMEs' access to finance, in particular to risk capital, microcredit and mezzanine finance and develop a legal and business environment supportive to timely payment in commercial transactions" (EC, 2008[3]).

Policy support can come in several forms. An efficient legal framework that supports the enforcement of creditor rights helps to increase financing opportunities from banks. A well-functioning cadastre and a system to register security interests over movable assets increases SMEs' collateral opportunities while minimising risks for lenders. Comprehensive, reliable and easily accessible credit information systems reduce the asymmetry of information between creditors and borrowers. When it comes to bank financing, credit guarantee schemes can stimulate SME lending by addressing banks' concerns over the risks presented by SMEs. Alternative sources of finance – such as microfinance, leasing and factoring – may also be actively supported through dedicated legal frameworks and supervisory mechanisms, and by raising awareness among SMEs of the range of financing options available to them. Finally, supporting SMEs' financial literacy through formalised programmes helps them develop their business planning and financial management skills, making them more attractive clients to financial service providers.

A crucial aspect to consider when implementing support schemes of this kind is their additionality: they should aim to support the private sector provision of financial services without crowding it out. Otherwise, market distortions risk making businesses dependent on continued public budget support rather than leveraging private funding, affecting the sustainability of support schemes. In addition, any support programme should be systemically monitored against performance indicators and evaluated to make sure that it reaches those most in need of support and adjusted as needed.

Assessment framework

Structure

Access to finance for SMEs is assessed through the following five sub-dimensions:

- **Sub-dimension 6.1: Legal and regulatory framework** focuses on the legislation facilitating access to finance, including protection of creditor rights, facilitating the use of collateral and credit information, and banking and stock market regulations.
- **Sub-dimension 6.2: Bank financing**, including the lending practices of local banking markets and the availability of credit guarantees.
- **Sub-dimension 6.3: Non-bank financing**, reviewing the legal framework and use of microfinance, leasing and factoring.
- **Sub-dimension 6.4: Venture capital ecosystem**, assessing the legal framework enabling venture capital and the existence of business angel networks.
- **Sub-dimension 6.5: Financial literacy**, analysing government efforts to promote financial know-how among the business community and wider population.

Figure 7.2 illustrates how the sub-dimensions and their constituent indicators make up the assessment framework for this dimension. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

The assessment framework puts particular emphasis on the legal and regulatory framework for facilitating access to finance for SMEs. However, it should be noted that access to finance is the result of a complex interaction of a variety of determinants linked to areas such as the general macroeconomic environment, the health of local financial markets and the overall creditworthiness of enterprises. These cannot be all captured by the assessment framework, which focuses on a set of specific themes and indicators which are deemed to be disproportionally important for SMEs compared to larger firms.

Key methodological changes to the assessment framework

Small adjustments have been made to the framework since the 2016 assessment to allow for a more in-depth analysis of the quality of the regulations (Table 7.2).

Table 7.2. Key changes in the composition of Dimension 6

Sub-dimensions	Key changes since 2016 assessment
Sub-dimension 6.3: Non-bank financing	Removal of references to savings and loan associations as they were only operating in Albania, and are typically already captured under microfinance or bank finance. In some cases, this has led to substantial changes in the scoring.
General	Introduction of a more detailed analysis of the quality of leasing and factoring legal frameworks and higher weights given for their penetration data.

Figure 7.2. Assessment framework for Dimension 6: Access to finance for SMEs

Access to finance for SMEs

Outcome indicators
Bank loans to SMEs
Interest rate for new business loans for SMEs
Government loan guarantees
Total annual volume of microfinance loans
Total annual leasing volume
Total annual factoring volume
Venture capital investments, total volume
Adult population that hold a bank account
Government direct loans

Sub-dimension 6.1: Legal and regulatory framework

- **Thematic block 1:** Creditor rights
- **Thematic block 2:** Register
- **Thematic block 3:** Credit information bureau
- **Thematic block 4:** Banking regulations
- **Thematic block 5:** Stock market

Sub-dimension 6.2: Bank financing

- **Thematic block 1:** Banking lending practices and conditions
- **Thematic block 2:** Credit guarantee schemes

Sub-dimension 6.3: Non-bank financing

- **Thematic block 1:** Microfinance institutions
- **Thematic block 2:** Leasing
- **Thematic block 3:** Factoring

Sub-dimension 6.4: Venture capital ecosystem

- **Thematic block 1:** Legal framework
- **Thematic block 2:** Design and implementation of government activities
- **Thematic block 3:** Monitoring and evaluation

Sub-dimension 6.5: Financial literacy

- **Thematic block 1:** Planning, design and implementation
- **Thematic block 2:** Monitoring and evaluation

Quantitative indicators
World Bank *Doing Business* – Strength of legal rights index
Credit information coverage (% of population)
Quality of legal framework for capital markets
Market capitalisation (% of GDP)
Share of credit-constrained firms
Severity of access to finance as an obstacle to doing business
Total leasing volume (% of GDP)
Total factoring volume (% of GDP)
World Bank *Doing Business* – Strength of minority investor protection index

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

Other sources of information

Data from the World Bank *Doing Business* report were used to supplement the assessment of the legal framework for secured transactions (World Bank, 2018[4]). These include indicators such as the coverage of credit information systems and recovery rates in cases of insolvency to compare countries and changes over time. Data from the *Business Environment and Enterprise Performance Survey* (BEEPS) V (EBRD, 2014[5]) are used to provide information on the extent of credit constraints. Reports – mainly by national or international associations on the use of certain instruments such as factoring, leasing or capital markets – were also used to provide context for the relevant sections. The World Bank's *Global Financial Development* database (World Bank, 2018[6]) provided credit data for the WBT and comparator economies and the European Business Angel Network provided data on venture capital (VC) investments (EBAN, 2017[7]).

Overall, the data available for this chapter were relatively limited, particularly data disaggregated by firm size and on non-bank financing instruments. It was therefore not always possible to use the same reporting year, but in all cases the latest available data were used.

Analysis

Performance in access to finance for SMEs

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension (see Figure 7.2) are designed to assess the Western Balkan economies and Turkey's performance in creating the conditions that facilitate SMEs to access the finance they need. This analysis section starts by drawing on these indicators to analyse the health of the financial sector in the WBT.

In the Western Balkans, a region that has seen very high levels of non-performing loans (NPLs) since 2010 and subdued credit growth, access to finance for SMEs has been difficult. High collateral requirements and complex application procedures deter SMEs from accessing bank loans. Less favourable loan terms for SMEs often reflect lenders' perceptions about their ability to repay them. The picture in Turkey is slightly different. SMEs have benefitted from a rising trend in bank lending, partly fuelled by substantial government support programmes, particularly in recent years. However, access to credit in less advanced regions of Turkey and for longer tenors is still an issue and the banking sector may be vulnerable to macroeconomic developments.

With credit growth somewhat static or even negative since 2008, domestic credit to the private sector as a share of gross domestic product (GDP) has remained at similar levels across the WBT region in the past ten years with few, but notable, exceptions. On average, private credit has remained around 40-43% of GDP, apart from in Turkey and Montenegro, which have seen significant shifts of around 35 percentage points upwards and downwards, respectively (Table 7.3). This compares to private credit levels of 97% of GDP in the EU-15 and 68% in the EU-13,[2] which suggests that the level of financial intermediation is still low in most economies in the region.

There have been more positive signs more recently. NPL levels in the Western Balkans have come down since their peak in 2010-14, ranging from below 3% in Kosovo to 13.3% in Albania as of June 2018. Credit growth has picked up slightly and liquidity is ample. In some economies, such as Montenegro, banks are showing renewed interest in SME lending whereas in other markets lending remains subdued, either due to risk perceptions on the supply side or low demand. Across all WBT economies, lending to SMEs represents around 40% of total loans on average (calculations based on IMF data (2017[8]).

Table 7.3. Key banking sector indicators (2008-18)

	Private sector credit, as % of GDP			Credit constrained firms, as % of firms needing a loan		NPLs, as % of total gross loans		
	2008	2014	2016	2008	2012	2008	2014	2018
ALB	35.4	37.1	34.7	35.6	60.4	6.6	22.8	13.3
BIH	66.8	55.3	53.2	35.8	37.1	3.1	14.0	9.7
KOS	32.9	36.0	39.3	64.9	46.5	0.0	8.2	2.8
MKD	42.1	48.9	47.4	50.2	50.3	6.7	10.8	4.9
MNE	87.0	51.4	48.9	44.0	63.2	7.2	17.2	7.4
SRB	39.0	43.8	43.4	36.3	39.1	11.3	23.0	9.2
TUR	35.2	74.5	69.9	26.6	18.7	3.4	2.8	3.0

Note: NPL ratios: latest available (Q1 2018 for BIH, MNE, SRB; Q2 2018 for ALB, KOS, MKD, TUR).
Source: (World Bank, 2016[9]), *World Development Indicators 2016*, http://documents.worldbank.org/curated/en/805371467990952829/World-development-indicators-2016; (EBRD, 2014[5]), *Business Environment and Enterprise Performance Survey, BEEPS V (2011-2014)*, http://ebrd-beeps.com; respective regulatory bodies, latest available.

While non-bank financing instruments could provide an alternative for some SMEs, alternative financing sources such as leasing and factoring are underdeveloped. Penetration rates in terms of annual volumes are mostly below 1% of GDP, which is below EU levels, particularly for factoring.

Legal and regulatory framework (Sub-dimension 6.1)

The legal and regulatory framework surrounding secured transactions is important to encourage banks to lend to SMEs, especially as small firms are perceived to be more risky borrowers. It is important to have a framework that allows information asymmetries to be reduced and for security to be easily used and enforced in case of default. Credit information systems facilitate the collection and distribution of credit information on borrowers, while allowing different types of assets to be used as collateral can help increase banks' appetites to lend to SMEs. The effective realisation of collateral if a borrower is unable to pay is also an important mechanism for reducing lending risks or costs. Therefore, creditor rights, functioning systems for registering security interests, comprehensive credit information systems and adequate banking regulations are important ingredients of a legal framework that supports, rather than impedes, lending to SMEs.

This section looks at these different aspects of the legal and regulatory framework that support bank lending to SMEs. Overall, the legal and regulatory frameworks for bank lending are already relatively well set up. There has been no significant further progress since the last assessment on this sub-dimension, with the exception of the coverage of credit information systems, which has significantly improved (Table 7.4).

Table 7.4. Scores for Sub-dimension 6.1: Legal and regulatory framework

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Creditor rights	4.44	3.85	3.55	4.76	5.00	4.27	3.56	**4.20**
Registers	4.42	4.50	4.92	4.75	4.58	4.45	4.42	**4.58**
Credit information bureaus	4.43	4.25	4.22	5.00	4.42	5.00	4.51	**4.55**
Banking regulations	3.50	3.00	3.50	3.50	3.50	4.50	5.00	**3.79**
Stock market	1.31	3.07	1.00	3.46	4.00	3.29	4.35	**2.93**
Weighted average	**3.86**	**3.87**	**3.67**	**4.46**	**4.41**	**4.38**	**4.31**	**4.14**

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

A solid legal framework for secured transactions is in place across the region

A well-designed legal framework for secured transactions can reduce lending risks and thus encourage bank lending at acceptable terms. In the WBT economies, the legal framework for secured transactions is relatively well developed in general. For example, in most economies apart from Bosnia and Herzegovina, secured creditors are paid first in cases of default or insolvency. Albania has made progress in this area since the last assessment by adopting legislative changes that give secured creditors priority when a firm liquidates. Similarly, Turkey changed its legislation in early 2018 to stipulate that secured creditors are paid before taxes (for more information, see Chapter 2 on bankruptcy and second chance for SMEs).

However, enforcement remains an issue in many jurisdictions, with lengthy procedures and sub-optimal outcomes. For example, the World Bank *Doing Business* indicator measuring the recovery rate in insolvency proceedings suggests that across WBT economies, secured creditors recover only around 38 cents on the dollar on average, compared to 71 cents in the EU (World Bank, 2018[4]).

Registers for security interests over movable assets are not yet sufficiently utilised to support the collateralisation of such asset types

Within a secured transactions framework, it is important to have reliable and accessible registers that facilitate the use of immovable and movable assets as collateral. Up-to-date, accessible systems are very important for secured lending. Together with a legal framework that allows for a straightforward repossession process, such systems can facilitate collateralised lending and bring down interest rates by increasing the chances of recovery in cases of default.

It is therefore important to have a cadastre that allows for the registration of land and real estate, including information on their value, ownership and existing pledges over the asset. Online availability and broad access (within the limits of privacy laws) are important to improve ease of use and reduce costs. All the WBT economies have cadastres in place, but in many cases they are only partly available on line (for instance in Albania, Montenegro and Serbia). These economies should improve their accessibility and ease of use.

Registers for security interests over movable assets can widen the range of assets companies can use as collateral. This is particularly important for SMEs, as they often lack access to sufficient land or real estate to use as a security. Such registers should be centralised and unified in order to avoid multiple use of the same asset. As with a cadastre, accessibility is important to lower costs and increase usage. All the economies in the region have an operational registration system for pledges over movable assets. However, accessibility is still an issue and could be improved by making registration or records available on line (for instance in Albania, North Macedonia and Serbia) in one central register, and by increasing the speed of updates so that a potential lender is always sure they have access to up-to-date status information. In Turkey, the reform of the non-possessory movables pledge regime in 2017 has made it easier to use movable assets as collateral, and this is becoming increasingly common.

The coverage of credit information systems has significantly improved

Credit information systems can help reduce information asymmetries between lenders and borrowers by giving potential lenders access to the credit history of a borrower. While public registries are usually managed by the central bank which is collecting lending data mainly for supervisory purposes, private credit bureaus typically collect a broader range of information which can include data from utilities or telecommunication companies. Collecting information from a broader range of sources can be particularly helpful for first-time borrowers who have not yet established a credit history with a bank or other financial institution. All the economies in the region have either a public credit registry or a private bureau, with the coverage of the population varying (Table 7.5). In some economies, coverage has increased significantly in the past three to four years, most notably in Albania, Montenegro and North Macedonia, with the latter reaching 100% coverage in 2017. However, only credit bureaus in Bosnia and Herzegovina and North Macedonia collect data from retailers and utilities. The Serbian credit bureau is the only one in the region to recognise SMEs as a distinct group of borrowers and provide SME-specific credit reports.

Table 7.5. Credit information coverage in the WBT economies (2008-18)

	Public credit registry coverage (% of adults)			Private credit bureau coverage (% of adults)		
	2008	2014	2018	2008	2014	2018
ALB	6.8	16.7	57.4	n/a	n/a	n/a
BIH	n/a	39.7	43.7	69.2	8.1	12.9
KOS	n/a	22.8	41.3	n/a	n/a	n/a
MKD	6.5	36.4	40.7	n/a	83.7	100
MNE	26.3	26	56.6	n/a	n/a	n/a
SRB	n/a	n/a	n/a	91.9	100	100
TUR	12.7	63.6	77.72	26.3	n/a	n/a

Note: 'n/a' means institution does not exist in the economy.
Source: World Bank (2018[6]), *Global Financial Development Database*, https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database.

The banking regulatory framework has started to align with Basel III requirements

Most economies in the region have started to align their regulatory framework with Basel III.[3] All the economies except Albania and Kosovo have made progress in this area, though at differing levels. In the Western Balkans in particular, banks' capital adequacy position is relatively comfortable and does not seem to constrain lending.

While some economies have adopted the euro or have a pegged currency, foreign exchange (FX) denominated loans are still prevalent, averaging 58% in the Western Balkans (excluding Kosovo and Montenegro) and 32% in Turkey (as of December 2017). Serbia, where over 70% of loans are denominated or indexed to a foreign currency, has formulated a dinarisation strategy; but FX loan levels have not effectively come down, particularly for businesses. In Albania, over half of total loans are foreign currency loans. However, the share has significantly decreased – from nearly 70% in 2010 – supported by a national strategy to encourage local currency use. To protect consumers, all economies not using the euro require banks to disclose FX risks to prospective borrowers. This is particularly important for SME lending as small entrepreneurs tend to be less sophisticated borrowers and financial literacy remains low in many economies of the region – see also the section below on Financial literacy (Sub-dimension 6.5).

Capital markets are underdeveloped but a regional solution might be more successful

The notion of financing SMEs through capital market instruments has gained traction in recent years. If tailored to SME needs, capital markets can provide a viable alternative for some more mature companies to access (long-term) financing, either in the form of an initial public offering or corporate bonds. Attempts to adapt capital market instruments to SME needs have been made in both developed and emerging markets in recent years – albeit with mixed results (see Box 7.1). With the support of the European Bank for Reconstruction and Development (EBRD), the Belgrade Stock Exchange is currently preparing a programme aimed at increasing the awareness and demand for investment capital and the supply of securities, while in Turkey the Emerging Companies Market of Borsa Istanbul, which targets SMEs, continues to provide access to finance for companies – although its impact is somewhat below potential.

In contrast, capital markets remain underdeveloped in most economies of the Western Balkans, often due to small market sizes. As a result, they have increasingly focused on strengthening connectivity in the South East Europe region through the SEE Link in recent years, which is now fully operational.[4] Since the last assessment, the stock exchanges of Belgrade, Sarajevo and Banja Luka have joined the platform, which now links seven national stock exchanges in South East Europe. Albania and Kosovo are currently not participating in the platform, while Montenegro applied to join in 2016, although its membership is pending. Integration of the trade environment is now complete, but the consolidation of the post-trade environment remains outstanding. Deploying harmonised post-trade solutions would streamline processes for the settlement and clearing of security transactions, and provide a single access to all the central securities depositories of the SEE Link Markets. For investors, this would provide more certainty and security, and increase the liquidity of the SEE Link in the long term.

Box 7.1. Strengthening SME access to capital market finance: The Progress Market in Croatia and Slovenia

In 2015, the European Commission adopted an action plan setting out measures to establish the building blocks of an integrated capital market in the EU – the Capital Markets Union – to broaden the range of financing options for companies at all stages of the business cycle. Among other measures, the action plan envisages more access by SMEs to capital market funding.

One way to enable this type of finance for SMEs is via dedicated SME growth markets. Some European and other emerging market stock exchanges operate such markets, which typically have less restrictive listing and reporting requirements than the main markets. As an alternative source of financing, such dedicated SME markets can play a significant role in helping SMEs to finance inclusive, long-term growth.

Against this background, in 2017 the Zagreb Stock Exchange (ZSE), together with the EBRD, launched a feasibility study into establishing an SME growth market in Croatia and Slovenia, which was aimed at creating a regional SME financing platform. The feasibility study provided a proposal for the market set-up and most suitable measures to increase access to capital market financing by companies in Croatia and Slovenia, and potentially the wider Western Balkan region. Specifically, it provided the ZSE with sufficient capacity to decide on the optimal set-up of the SME market, together with a business and implementation plan as a policy-making lever with relevant stakeholders.

This new SME growth market – the Progress Market – has launched operations under the Markets in Financial Instruments Directive II of the EU (MiFID II). This regulation eases listing and reporting requirements for SME markets compared with the main markets, and is designed to strike a balance between listing requirements and providing adequate information for financial investors. A first listing took place in January 2019.

The implementation of the Progress Market for Croatia and Slovenia complements the successful establishment of the equity crowdfunding platform for SMEs and start-ups at ZSE in 2017, which transformed the ZSE into a company financing hub. The company financing hub is a model developed by the EBRD in which exchanges evolve into multi-level equity markets, covering issuers of various sizes at different development stages in segmented markets, thus enabling exchanges to offer access to capital market financing to small- and mid-cap companies throughout their different growth stages.

Sources: European Bank for Reconstruction and Development; EC (2015[10]), *Action Plan on Building a Capital Markets Union*.

The way forward for the legal and regulatory framework

- **Continue efforts to strengthen collateral registries**, in particular for movable assets. For SME lending in particular, steps should be taken to facilitate a framework in which collateral can be easily established and repossession processes are straightforward. This could encourage lending activity which is currently subdued despite good capital adequacy and liquidity.
- **Strengthen and align data collection**. Informed policy decision making and impact monitoring can only occur in an environment where policy makers have access to reliable and standardised statistics. In the context of access to finance, governments should prioritise and regulate data collection from financial institutions, including non-bank finance instruments (NBFIs), ideally disaggregated by size of enterprise and demographic factors such as gender and age. This would also help close the existing gaps in statistical data collection

standards and allow all the economies to be included in comparative performance analyses, such as the OECD Financing SMEs and Entrepreneurs Scoreboard[5].

Bank financing (Sub-dimension 6.2)

Many factors influence the availability of bank financing for SMEs. These range from the competitive environment in the banking system and the legal framework for bank lending to the financial readiness of borrowers. Governments can put in place policies to improve the "enabling environment", such as the legal framework or financial literacy, and they can also run support schemes that directly increase access to bank finance.

Support schemes can take many different forms: interest rate subsidies, caps, guarantees and other instruments. While the choice of instruments can depend on a variety of factors, it is important to align instruments as much as possible with market decision making in order to have a more sustainable and less distorting effect. For example, providing guarantees is more closely aligned with banks' commercial lending decisions than a straight interest rate cap dictated by policy makers with no consideration for risk profiles and cost of funding.

This section measures SMEs' access to bank financing. It looks first at the availability of bank financing more generally and then discusses support schemes that could facilitate lending to SMEs.

While in the aftermath of the 2008 crisis many governments put support schemes in place providing interest rate subsidies, credit guarantee schemes remain largely absent from the support landscape, particularly in the Western Balkans. Where they do exist, they tend to be rather small in scale and ineffective. However, steps have been taken in recent years to set up new schemes, the success of which will need to be assessed once they are more established. Turkey has a functioning credit guarantee fund which has been used as a major policy tool by the government in recent years to stimulate lending. The advanced nature of the credit guarantee fund is also reflected in Turkey's high score in this sub-dimension (Table 7.6).

Table 7.6. Scores for Sub-dimension 6.2: Bank financing

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Banking lending practices and conditions	2.48	2.74	3.08	3.37	2.07	3.12	3.61	**2.92**
Credit guarantee schemes	2.48	2.17	3.00	1.67	1.00	2.33	3.44	**2.30**
Weighted average	**2.48**	**2.51**	**3.05**	**2.69**	**1.64**	**2.80**	**3.55**	**2.67**

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

Bank lending is slowly recovering, but intermediation levels remain below potential

As described above, there are signs of recovery in the Western Balkans' financial markets. However, many economies are still struggling with the aftermath of the global economic and financial crisis, reflected in high NPLs and a limited willingness to lend to

SMEs despite high levels of liquidity. In contrast, Turkey has experienced solid credit growth over the past few years, partly fuelled by extensive government support schemes. Despite this, Turkey's banking sector remains vulnerable to macroeconomic developments. Overall across the region, SMEs in Turkey are the least constrained in accessing finance.

SME support schemes are available, but are often too small or cumbersome to make a difference

Most of the economies have specific nationally funded development banks or SME agencies with financing programmes in place. These typically extend credit lines at more favourable terms, or provide interest rate subsidies through special SME lending programmes with commercial lenders. The only exceptions to this are Albania and Kosovo. In Albania, these programmes are mainly donor financed or co-financed, while Kosovo has no such subsidised schemes.

Credit guarantee schemes (CGSs) can be an effective tool for supporting SME lending and alleviating the financing constraints they face. They can provide important security for lenders in light of existing information asymmetries and the perceived risk of lending to small businesses. In addition, credit guarantees tend to be better aligned with commercial lending practices than measures such as interest rate subsidies. If well designed and monitored (Box 7.2), they are also less onerous on public budgets.

Many WBT governments have either established a guarantee fund, or plan to do so in the near future. This is a significant change from the last assessment when such initiatives were rare across the region. However, the extent of these schemes differs greatly across economies. In Turkey, the Credit Guarantee Fund (KGF) introduced a portfolio product in 2017 and the government has greatly increased the funding available to it, leading to guarantees being issued to the amount of around TRY 200 billion (Turkish lira; around 6.5% of GDP). The KGF is also the only scheme in the region that has some element of private ownership, as a number of banks are shareholders. CGSs in the Western Balkans are more modest in size – many could be more effective if they were scaled up. In addition, they are mainly set up and run by governments and donors with little or no private sector involvement. This may contribute to the low uptake and limited feedback loop between the guarantee scheme and the commercial banks which are supposed to use it. Some steps have been taken by Western Balkan economies to set up new schemes or invigorate old ones. In Kosovo, for instance, a new Credit Guarantee Fund was established in 2016/17 to provide portfolio guarantees to local banks with the intention of supporting SME lending. Serbia has also taken the first steps towards establishing a guarantee facility with the help of EU funding, and Montenegro is planning to set up a CGS within its Investment and Development Fund in 2019.

The way forward for bank financing

- **Continue efforts to support banking sector recovery**. Particular focus should be placed on further reducing NPL levels and providing a legal and regulatory environment that encourages sustainable credit growth.
- **Work on establishing and strengthening credit guarantee schemes.** Where the first steps have been taken, governments should continue with the establishment of CGSs; where schemes exist, but are ineffective, they should consider comprehensive reforms. The design of these schemes should be

mindful of questions of sustainability, scale and private sector participation in order to ensure that they are meaningful and result in appropriate uptake. See Box 7.2 for more information on best practices.

Box 7.2. Good practice design features of credit guarantee schemes

Credit guarantee schemes can help alleviate financing constraints for SMEs by allowing banks to absorb more risk and thus encourage more lending to the SME segment. However, if poorly designed or implemented they only add limited value and can prove to be costly.

CGSs provide guarantees on loans by covering a share of the default risk of the loan. In case of default, the lender recovers the value of the guarantee. Schemes can be designed in many different ways. They can have differing coverage ratios, risk-sharing arrangements and pricing structures; they can cover individual loans or loan portfolios; and may have private sector participation. While the ultimate design of any scheme depends on the circumstances of its inception and specific objectives, there are certain aspects that policy makers should take into account when setting up or reforming a CGS.

The risk sharing and coverage structure is one key component. For example, a high coverage ratio (i.e. the guarantor bears most or all of the losses in case of default) or imbalanced risk-sharing arrangement can increase moral hazard and may encourage borrowers to default prematurely, or relieve banks of their responsibility to assess loan risk adequately at origination. An interesting example of how to establish the guarantee rate and reduce moral hazard is the Fondo de Garantía para Pequeños Empresarios (FOGAPE) in Chile, where the coverage ratio is determined through an auction.

Pricing should adequately reflect the risk taken by the guarantor in order not to overly subsidise private market participants. While this should keep losses to a minimum, credit guarantee schemes should not try to maximise profits as this would defeat the scheme's purpose of providing affordable financing to SMEs. Therefore, the structure should reflect policy priorities in balancing loan incrementality and cost recovery.

Providing guarantees for individual loans gives more control to the guarantee scheme as it can evaluate each loan application. However, it may be cumbersome for implementing commercial banks that have to fill in documentation for each loan and wait for a decision by the CGS. This can significantly lengthen the application and decision-making process by the commercial bank and make the loan more costly. Portfolio guarantees may be easier to implement but can be more difficult to design in ways that minimise moral hazard.

While many guarantee schemes are originated and funded by the public sector, **private sector participation** should be considered and even encouraged. Having commercial banks participate in the scheme's capitalisation can not only provide additional financing, but also creates an important feedback loop between commercial banks and the CGS to ensure that the products offered are tailored to market needs, thus increasing their effectiveness.

Finally, some schemes provide **additional services** to end-borrowers beyond the guarantee alone. These include technical assistance – which can also be provided through referral to other state agencies – advisory services or training. For example, the Korean guarantee agency for technology finance, KOTEC (Korea Technology Finance

Corporation), provides services beyond guarantees, such as technology appraisal, which have had a positive effect on the recipients' performance.

Sources: Williams, Kijek and Cole (2004[11]), *Evaluation of the Canada Small Business Financing Program: Final Report*, http://publications.gc.ca/collections/Collection/Iu188-79-2004E.pdf; Vienna Initiative (2014[12]) *Credit Guarantee Schemes for SME Lending in Central, Eastern and South-Eastern Europe*, http://vienna-initiative.com/wp-content/uploads/2014/11/2014_credit_guarantee_schemes_report_en.pdf; OECD (2009[13]), *Facilitating Access to Finance*, www.oecd.org/global-relations/45324327.pdf.

Non-bank financing (Sub-dimension 6.3)

Diversifying access to finance for SMEs has gained momentum across the world and has become a policy priority for many emerging economies as a way of complementing conventional bank finance. According to the *G20/OECD High-level Principles for SME Finance* (G20/OECD, 2015[14]), economies need to develop more comprehensive options for SME financing to support sustainable economic growth and boost the resilience of the financial sector, and particularly to target enterprises more likely to be under-served by the banking sector.

Microfinance can help support the financial inclusion of smaller enterprises and borrowers that are typically not covered by larger commercial banks. If tied into the credit information system, it can also help build a credit history and make borrowers more creditworthy in the long run. Typically, microfinance institutions are established with the support of governments or the donor community, but may become self-sustaining in the long term.

Other non-bank financial instruments such as asset-based leasing or factoring tools can provide access to finance for SMEs even when they struggle to meet banks' collateral or credit history requirements. Leasing can help SMEs modernise equipment and implement expansion plans in the absence of a bank loan or financial resources of their own. Under a leasing contract, dedicated leasing companies purchase a piece of equipment or technology for example, and allow the lessee to use this asset for a fee without requesting further guarantees, such as additional collateral. Factoring is a financial instrument based on the sale of accounts receivable from a firm with a good credit performance. Factoring can alleviate liquidity constraints for SMEs and enable them to have off balance-sheet access to working capital, which is priced against the credit risk of the enterprise's customers rather than that of the company itself.

Both types of financial instruments require a supporting legal framework, either incorporated into the general legal framework or supported through dedicated factoring and leasing laws. Factoring in particular often includes complex contracting procedures and requires more sophisticated legislation. Law makers and regulators can encourage the development of leasing and factoring by maximising the stability and legitimacy of the industry, ensuring that market players are well established and increasing the legal certainty of transactions.

This section looks at the existence and scope of a legal and regulatory framework that supports leasing, factoring and microfinance activities, as well as statistics on the use of these types of financial services.

Overall, the region has made some progress in developing non-bank financial instruments. In particular, the economies have strengthened their legal frameworks for enabling leasing and factoring. Market penetration of alternative finance has gradually increased but remains significantly below potential. Table 7.7 summarises the economies' performance in this sub-dimension, revealing that most economies' performance is relatively similar.

Table 7.7. Scores for Sub-dimension 6.3: Non-bank financing

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Microfinance institutions	4.83	4.33	4.67	2.17	4.67	2.00	2.33	**3.57**
Leasing	2.46	2.75	2.54	3.17	2.33	3.30	3.33	**2.84**
Factoring	2.63	1.75	1.50	1.50	3.00	3.25	3.50	**2.45**
Weighted average	**3.31**	**2.94**	**2.90**	**2.28**	**3.33**	**2.85**	**3.06**	**2.95**

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

Microfinance is a viable source of finance for SMEs in some economies, but volumes remain low

Microfinance is available on a small scale in most of the assessed economies, and volumes have increased in recent years, although a significant share is absorbed by private households. Microfinance institutions (MFIs) account for the vast majority of the NBFI loan portfolio in Albania, where the statistics also include the activities of saving and loan associations. Microfinance is also available in Bosnia and Herzegovina and North Macedonia. Microfinance lending is also available in Montenegro at self-sustainable levels, where it has gained momentum in recent years and almost returned to pre-crisis levels. Volumes reached over EUR 60 000 at the end of 2017, almost doubling from a low in 2013.

In contrast, levels of financing through MFIs remain low in Serbia and Turkey, primarily due to legal environments that are not conducive to their operation. In Turkey, micro and smaller businesses are mainly served by commercial banks, thus leaving relatively little room for dedicated MFIs. Some non-government organisations (NGOs) provide microloans to specific segments of the population, such as women on low incomes. Given the limited scope of this type of activity, there has not been a focus on developing a specific legal framework for microfinance in recent years. In Serbia, the government's SME Development Strategy and Action Plan 2015-2020 envisages establishing a legal framework for non-bank, non-deposit credit institutions, but has made no progress in introducing legislation conducive to microfinance.

Leasing and factoring are gaining momentum as legal frameworks are strengthened, but market penetration is below potential

Leasing and factoring operations are available in all economies in the Western Balkans and Turkey, but are underused. Overall, leasing volumes remain below potential, in particular in the Western Balkans (at less than 1% of GDP), compared to 1.3% of GDP in Turkey, where leasing and factoring are more developed. This compares to 1.7% of GDP on average in EU countries, with Estonia having one of the highest leasing penetration rates (at 4.3% of GDP), showing that this type of activity can also be significant in smaller economies. Factoring penetration also remains insignificant in the Western Balkans, at 1.6% of GDP, compared to 4.5% of GDP in Turkey and an average of 7.6% in EU countries (World Bank, 2016[9]). Yet due to the low level of financial intermediation in many economies, the potential for these instruments may be even higher than for many EU members.

Despite more recent positive trends, the continuing low uptake of leasing and factoring suggests in particular demand-side limitations such as low levels of awareness among smaller businesses of the opportunities they present. For instance, leasing is only a genuine alternative financing option for smaller enterprises in Turkey, due to a strong SME focus in the portfolio of leasing companies. In addition, the Turkish leasing sector is also strong in equipment and technology leasing, not just vehicle financing (the most common use of leasing in much of Central and Eastern Europe, including the Western Balkans).

Across most WBT economies, leasing and factoring are governed by a legal framework, with some governments having implemented or currently undergoing reforms to further strengthen legislation in recent years. This will increase certainty for the market and reduce transaction risk.

With support from the EBRD, Montenegro took an important step in the reform of its legislative framework in October 2017 with the adoption of a new law on financial leasing, factoring, purchase of claims, and microcredit and credit guarantee (Box 7.3). As a result, its legal and regulatory framework has been significantly improved and is now aligned with international best practices. In Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina also adopted a new law on factoring in 2016, and legislative reforms for factoring are currently underway in both Kosovo and North Macedonia. Serbia undertook an exercise in 2016 to identify areas of its legal framework requiring reform for factoring, with EBRD support. Few concrete actions have been implemented to date, however.

Box 7.3. Factoring and leasing legislative reform in Montenegro

In 2017, Montenegro introduced its first factoring legislation and reformed its leasing legislation in order to boost the financial industry and provide the market, in particular SMEs, with access to working capital and asset financing. The reform also supported Montenegro's efforts to align its financial sector regulation with the relevant EU *acquis*.

The aim of the new legislation was to reduce funding and cash flow shortages for SMEs, which are often required to provide trade credit to larger buyers and hold accounts receivable on their balance sheet. Similarly, the reform of leasing regulations aimed at boosting the use of leasing services and creating more legal certainty, as well as providing easily accessible asset financing. The main components of the reform included better regulation of leasing companies and amendments of ambiguous provisions in the existing legislation, which had previously resulted in slow enforcement and uncertainties surrounding rights and obligations in leasing transactions. In line with EU directives, for the first time the new factoring and leasing frameworks also introduced the passporting concept into Montenegrin legislation.

The legislative reform, supported by the EBRD, was undertaken in close co-ordination with financial services providers, consumers, regulators and foreign experts in financial services. Co-ordination was achieved through consultations at every stage of the process and by giving stakeholders the opportunity to comment on concept papers and propose alternative solutions that were later transposed into legislation. The involvement of all stakeholders from the beginning, and the close collaboration throughout the process, were key to the success and functionality of the reform.

Considering the level of development of the Montenegrin financial industry and recognising the importance of expanding it, the government authorities adopted a so-called light-touch approach. This meant finding a careful balance between enough regulation to introduce certainty while not placing unnecessary burdens on both service providers and consumers.

The Montenegrin regulators decided to combine the proposed factoring and leasing legislation with the legislation governing other financial services, such as microcredit institutions. This resulted in an all-encompassing financial industry law called the Law on Financial Leasing, Factoring, Purchase of Claims, Micro-Credit and Credit-Guaranteeing. The law now regulates both the service providers (e.g. capital requirements, licensing and corporate governance) and financial transactions (i.e. rights and obligations of transacting parties). It was adopted by parliament on 25 October 2017 and entered into force on 11 November 2017. It came into effect on 11 May 2018.

Source: European Bank for Reconstruction and Development.

The way forward for non-bank financing

- **Support the market penetration of factoring and leasing.** Amid increasing emphasis on reforms of legal frameworks for factoring and leasing, the focus should be on completing and adopting them. In addition, efforts should be made to raise awareness about these types of financial instruments to increase uptake. This could include centralised awareness-raising campaigns or posting information on dedicated portals (see section on The way forward for financial literacy).
- **Embed microfinance into a supportive legal and regulatory framework.** In those markets where microfinance is currently limited, governments should further consider including legislation conducive to microfinance activity to support SME access to finance.

Venture capital ecosystem (Sub-dimension 6.4)

Traditional debt financing is particularly ill-suited to high-growth and innovative early-stage firms, which typically lack a credit history and collateral and operate in a rapidly changing environment. For these types of enterprises more equity-based financial instruments, such as venture capital, are particularly relevant. Venture capitalists – usually business angels or specialised VC funds – invest in entrepreneurs with innovative ideas and provide them with additional business expertise and support at the pre-launch, launch or early development phases (Table 7.8). In return for the high risk of investing in early phase enterprises, VC usually envisages higher-than-average returns on investment. Business angel networks have a similar approach to VC, though the size of investment is usually much smaller and driven by high net-worth individuals or successfully established entrepreneurs.

Table 7.8. Venture capital by stage

Stages	Definition
Pre-seed/seed	Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.
Start-up/other early stage	Financing for product development and initial marketing. Companies have not sold their product commercially and are in the process of being set up.
Later stage venture	Financing for the expansion of an operating company.

Source: OECD (2015[15]), *New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments*, https://doi.org/10.1787/9789264240957-en.

Although currently not part of the SME Policy Index assessment, crowdfunding is also emerging as a new type of non-bank financial instrument particularly relevant to start-up companies. Crowdfunding allows businesses to draw on a multitude of investors without having to meet excessive reporting requirements or due diligence. The downside, however, is that it usually does not offer adequate investor protection. For instance, minimum capital or anti-money laundering requirements are not sufficiently regulated, unless embedded in a dedicated legal framework.

Governments can support the development of venture capital activities by creating an adequate framework for investor protection, taxation and corporate governance, as well as by building a local environment conducive to innovation and early stage enterprises (for more information, see Chapter 10 on innovation policy for SMEs).

This section assesses the availability in the WBT region of dedicated legislation to enable venture capital investment, as well as the presence of policy measures to encourage such activities.

Venture capital and business angel investments continue to be underdeveloped throughout the Western Balkan region. In contrast, in Turkey VC is available to innovative start-ups and high-growth enterprises, giving Turkey the highest score in this sub-dimension (Table 7.9).

Table 7.9. Scores for Sub-dimension 6.4: Venture capital ecosystem

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Legal framework	1.67	1.82	2.11	1.78	1.67	2.55	4.67	**2.32**
Design and implementation of government activities	1.57	1.34	2.29	2.82	1.54	2.86	4.91	**2.48**
Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	4.33	**1.48**
Weighted average	**1.49**	**1.44**	**1.97**	**2.09**	**1.48**	**2.38**	**4.71**	**2.22**

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

Venture capital remains in its infancy, with the focus on building an adequate environment

In Turkey, venture capital is embedded in the legal framework, and the government provides incentives for VC investment through the Turkish Investment Initiative. A recent decision to enable the Turkish Treasury to invest directly in venture capital funds is likely to further stimulate the market, which may help in light of increased macroeconomic uncertainty. The secondary market at Borsa Istanbul, which enables smaller businesses to access capital markets, also provides VC funds with a viable exit option. In addition, the government introduced new legislation in December 2017 to increase clarity on the treatment of crowdfunding activities. This new law moves the Turkish regime from a grant or reward-based system to a return-based one. Additional legislation is currently under preparation, with the support of the EBRD, to regulate equity-based crowdfunding.

None of the economies in the Western Balkans has a dedicated legal framework for VC; instead activities are de jure regulated by more general investment laws. Although some governments had carried out a review of the regulatory framework to address the needs of venture capital during the previous assessment period, no progress has been made in this area. Instead, most economies are primarily focusing on enhancing the overall enabling environment for innovation and have implemented several policies which may lead to increased VC activity in the medium term. Montenegro and Serbia are currently preparing new legislation to establish an alternative investment fund, which may eventually lead to better regulation of venture capital activity. Montenegro is also considering setting up a crowdfunding platform, but no concrete plans are yet in place.

The launch of operations in the Western Balkans of the Enterprise Innovation Fund, supported by the EU and IFIs (International Financial Institutions), is also a noteworthy development. To date, the fund has made a total of ten investments in North Macedonia and Serbia, investing more than EUR 5 million and giving an important signal for other investors looking at the region (EC, 2018[16]).

Business angels continue to be embryonic throughout the Western Balkan region, as existing networks remain largely non-operational and investments are limited. In contrast, numerous business angel networks in Turkey are an important source of finance for start-ups (Box 7.4), laying the foundation for VC investors. According to data collected by the European Trade Association for Business Angels, business angels in Turkey invested EUR 130.3 million between 2015 and 2017, compared to EUR 8.6 million in Serbia, EUR 3.3 million in North Macedonia, EUR 1.8 million in Kosovo and EUR 100 000 in Montenegro (EBAN, 2017[17]). Data for Albania and Bosnia and Herzegovina are not available.

Box 7.4. Public sector support to boost business angel activity in Turkey

Through a variety of policies, from tax incentives to passing a dedicated law, the Turkish government has been successful in significantly increasing business angel activity. Business angel investment volumes have almost quadrupled within four years (2014-17), making it the fifth largest market in Europe.

The increase is commonly attributed to a number of policies. First, Turkey was the third country in the world (after the United Kingdom and the United States) to pass a dedicated angel investor law in 2013. Second, the Turkish Treasury provides a tax incentive of 75% on qualifying investments, rising to 100% on investments in projects previously supported by specific government bodies such as the Scientific and Technological Research Council of Turkey (TÜBİTAK). However, it is worth noting that such schemes primarily target the development of the short-term market and should, in the medium term, be phased out to support more commercially sustainable solutions, such as the dedicated fund announced by TÜBİTAK, to which it has pledged USD 25 million.

As a result of the various support schemes, Turkey is now one of the largest business angel markets in Europe, with 16 angel networks and a total investment volume of EUR 52 million in 2017. While it is too early to showcase exits from this recent investment growth, Turkish start-ups and VC funds have made headlines with large-scale exits, with multiple acquisitions in 2017 and 2018 exceeding USD 100 million.

The Turkish case highlights the importance of a clear, reliable and dedicated legal framework, as well as the role of government incentive schemes in getting financing opportunities off the ground and widening the access to finance for SMEs. While early results look very promising, the Turkish example will be an interesting one to follow as it matures and transitions to more sustainable, market-driven mechanisms.

Source: EBAN (2017[17]), *2017 Annual EBAN Statistics Compendium*, European Trade Association for Business Angels, www.eban.org/2017-annual-eban-statistics-compendium.

The way forward for the venture capital ecosystem

- **Continue efforts to build a business environment conducive to innovation,** including strengthening certainties for investors and highlighting clear exit routes. Adopting dedicated legal frameworks to regulate venture capital investments and supporting innovative businesses with adequate finance and support infrastructure would increase the investment readiness of companies and boost foreign direct investment. In addition, while reviewing existing legislation and assessing the need for policy measures are positive first steps, they should be linked to an action plan outlining concrete policy measures and reforms.

Financial literacy (Sub-dimension 6.5)

Financial literacy is a particularly difficult element to quantify and measure, but the importance of implementing support programmes for the wider public is now recognised as an "investment in human capital" (Lusardi and Mitchell, 2014[18]). At the same time, programmes targeting existing entrepreneurs can help start-ups and SMEs make more informed decisions and better understand their financial requirements. The overall benefits of higher financial literacy levels have been well established in academic research and range from better interest rates to more diversified investments (Lusardi and Scheresberg, 2013[19]; Abreu and Mendes, 2010[20]).

Similarly, existing programmes require diligent monitoring and evaluation to adjust and optimise their reach and impact. Examples from Indonesia, Kenya, Malaysia and Sri Lanka show that impact assessments may be carried out by professional researchers if dedicated resources within the government are limited (Atkinson, 2017[21]).

This section examines the existence of government-led financial literacy assessment and training schemes in each economy, as well as the inclusion of financial literacy in the education system. It assesses support measures not only for their impact, but also their structural monitoring and evaluation.

While the region has made progress with the introduction of additional support programmes, expanding the suite of often highly specific training implemented by government and private bodies, the focus should now be on putting formalised monitoring and evaluation schemes into practice. Scores for this policy area remain relatively low across all the economies, as summarised in Table 7.10.

Table 7.10. Scores for Sub-dimension 6.5: Financial literacy

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning, design and implementation	2.26	1.38	2.89	1.98	2.33	2.78	3.45	**2.44**
Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	2.33	**1.19**
Weighted average	**2.01**	**1.31**	**2.51**	**1.79**	**2.07**	**2.42**	**3.22**	**2.19**

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

Ad-hoc financial literacy programmes exist across the region, but lack formal monitoring and evaluation

Global surveys have found a relatively low level of financial literacy in the WBT region, meaning that any policies should target both the wider population and existing entrepreneurs. On average in the assessed economies, 27% of the adult population are considered financially literate, compared to an EU average of 52% (Klapper, Lusardi and Van Oudheusden, 2015[22]). While the regional picture seems encouraging at first, with multiple governments implementing visibility campaigns, training programmes and/or online portals (such as the Serbian National Bank's Tvoj Novac educational portal[6]), efforts are generally quite ad hoc and rarely form part of a holistic framework. In Montenegro for example, training is provided by at least half a dozen different organisations, such as the Directorate for SME Development[7], the employment agency and the chamber of commerce, without any central strategy in place. As with other policy instruments, financial literacy support programmes should be based on needs assessments (in this case, a population survey), leading to an overall strategy. In the Serbian example, the National Bank has developed an official strategy, but it is not grounded in a national assessment of financial literacy.

Formal evaluation approaches are generally lacking in the WBT. Turkey appears to be the only economy in the region which conducts formal monitoring of its financial literacy initiatives under the Financial Access, Financial Education and Financial Consumer Protection Strategy and Action Plans. However, no data on their impact are available.

The way forward for financial literacy

- **Prioritise financial literacy within existing policy frameworks**. Economies should develop a centralised strategy co-ordinating a variety of financial literacy efforts targeting diverse population groups. This should range from including basic topics in secondary curricula and advanced topics in vocational educational curricula to creating portals providing all the available support schemes for potential and existing entrepreneurs. Such support programmes might also consist of training or reference material and should ideally be integrated with the other government SME financial support programmes.
- **Improve analysis of financial literacy levels.** Economies should undertake a formal assessment of current financial literacy levels (either drawing on existing international surveys or commissioning dedicated ones) and implement stringent centralised monitoring and evaluation against pre-set targets. Governments could

partner with private sector financial institutions (who would have a vested interest in expanding their potential client base) for outreach campaigns, drawing on NGOs' development experience if needed, to implement programmes targeted at particular demographics (e.g. rural SMEs, potential entrepreneurs or women entrepreneurs).

Conclusions

Overall, the relevant stakeholders in all the WBT economies have made progress in improving access to finance for SMEs.

The assessment found that acceptable legal and regulatory frameworks are in place to facilitate access to finance for SMEs, even though the effective availability of wider collateralisation options could be improved. The coverage of credit information systems has expanded, enabling more enterprises to build a credit history. Amid recovering banking systems, lending has slowly resumed and, in some economies, commercial banks are increasingly focusing on SME lending. Non-bank finance instruments have gained momentum as governments are increasingly recognising the need to diversify access to finance sources. The activities of microfinance institutions have increased in some economies, and across the region efforts are underway to strengthen legal frameworks to support leasing and factoring. Furthermore, the assessment found that venture capital remains active in Turkey amid strong government support. However, although some pioneer VC fund investments were made in North Macedonia and Serbia during the reporting period, VC remains in its infancy across the Western Balkan region.

Nevertheless, systemic issues remain across all WBT economies. In this context, public sector interventions to ease SME access to finance remain common, but, governments are slowly shifting towards more commercially aligned solutions such as credit guarantees. Steps to strengthen legal frameworks to support leasing and factoring are welcome, but their increased uptake requires support, including by raising awareness among small businesses.

Lastly, the low levels of financial literacy require both public and private sector support and a clear strategic approach to tackle shortcomings in this area. Addressing the recommendations presented in this chapter will support relevant stakeholders in the WBT region to improve access to finance for SMEs.

Notes

[1] For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

[2] The EU-15 comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom. The EU-13 comprises Bulgaria, Croatia, Cyprus,** Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

** Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.

Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

[3] Basel III is a set of measures developed by the Basel Committee on Banking Supervision in response to the 2008/09 crisis. It has beesn agreed internationally with the aim of a more resilient banking system. It underpins the regulatory and supervisory framework and strengthens banks' risk management.

[4] SEE Link website: www.see-link.net.

[5] See http://www.oecd.org/cfe/smes/financing-smes-and-entrepreneurs-23065265.htm

[6] See www.tvojnovac.nbs.rs.

[7] The Directorate for SME Development was restructured at the beginning of 2018 and renamed as the Directorate for Investments, Development of Small and Medium-Sized Enterprises and Management of EU Funds.

References

Abreu, M. and V. Mendes (2010), "Financial literacy and portfolio diversification", *Quantitative Finance*, Vol. 10/5, pp. 515-528, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1808666. [20]

Atkinson, A. (2017), "Financial education for MSMEs and potential entrepreneurs", *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 43, OECD Publishing, Paris, https://dx.doi.org/10.1787/bb2cd70c-en. [21]

EBAN (2017), *2017 Annual EBAN Statistics Compendium*, European Trade Association for Business Angels, http://www.eban.org/2017-annual-eban-statistics-compendium (accessed on 3 December 2018). [17]

EBAN (2017), *European Business Angel Network*, http://www.eban.org/2017-annual-eban-statistics-compendium/ (accessed on 2017). [7]

EBRD (2014), *Business Environment and Enterprise Performance Survey, BEEPS V (2011-2014)*, http://ebrd-beeps.com. [5]

EC (2018), *WB EDIF 2017 Annual Report*, European Commission, Brussels, http://www.wbedif.eu/wp-content/uploads/2018/07/WBEDIF-Annual_Report_2017-digital.pdf. [16]

EC (2017), *Small and Medium-Sized Enterprises' Access to Finance*, European Semester Thematic Factsheet, European Commission, Brussels, https://ec.europa.eu/info/sites/info/files/file_import/european-semester_thematic-factsheet_small-medium-enterprises-access-finance_en.pdf. [2]

EC (2015), *Action Plan on Building a Capital Markets Union, COM (2015) 468 final*, European Commission, Brussels. [10]

EC (2008), *Think Small First: A Small Business Act for Europe*, Commission of the European Communities, Brussels, http://ec.europa.eu/transparency/regdoc/rep/1/2008/EN/1-2008-394-EN-F1-1.Pdf. [3]

G20/OECD (2015), *G20/OECD High-Level Principles on SME Financing*, OECD, Antalya, Turkey, http://www.oecd.org/finance/G20-OECD-High-Level-Principles-on-SME-Financing.pdf. [14]

IMF (2017), "FAS 2017", in *Financial Access Survey*, http://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C (accessed on 2018). [8]

Klapper, L., A. Lusardi and P. Van Oudheusden (2015), *Financial Literacy Around the World: Insights from the Standard & Poor's Ratings Services Global Financial Literacy Survey*, World Bank, Washington, DC, https://static.nzz.ch/files/1/8/1/2015-Finlit_paper_17_F3_SINGLES_1.18658181.pdf (accessed on 3 December 2018). [22]

Lusardi, A. and O. Mitchell (2014), "The economic importance of financial literacy: Theory and evidence", *Journal of Economic Literature*, Vol. 52/1, pp. 5-44, http://dx.doi.org/10.1257/jel.52.1.5. [18]

Lusardi, A. and C. Scheresberg (2013), "Financial literacy and high-cost borrowing in the United States", *NBER Working Paper*, No. 18969, National Bureau of Economic Research, Cambridge, MA, http://dx.doi.org/10.3386/w18969. [19]

OECD (2016), *SME Policy Index: Western Balkans and Turkey*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/9789264254473-en. [1]

OECD (2015), *New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264240957-en. [15]

OECD (2009), *Facilitating Access to Finance*, OECD, Paris, http://www.oecd.org/global-relations/45324327.pdf. [13]

Vienna Initiative (2014), *Credit Guarantee Schemes for SME Lending in Central, Eastern and South-Eastern Europe*, Vienna Initiative Working Group on Credit Guarantee Schemes, http://vienna-initiative.com/wp-content/uploads/2014/11/2014_credit_guarantee_schemes_report_en.pdf. [12]

Williams, D., R. Kijek and S. Cole (2004), *Evaluation of the Canada Small Business Financing Program: Final Report*, Industry Canada, http://publications.gc.ca/collections/Collection/Iu188-79-2004E.pdf. [11]

World Bank (2018), *Doing Business 2019: Training for Reform*, World Bank, Washington, DC, http://www.doingbusiness.org/en/doingbusiness. [4]

World Bank (2018), *Global Financial Development Database*, https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database. [6]

World Bank (2016), *World Development Indicators 2016*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/805371467990952829/World-development-indicators-2016. [9]

Chapter 8. Standards and technical regulations (Dimension 7) in the Western Balkans and Turkey

This chapter assesses the quality infrastructure systems and procedures required in the Western Balkans and Turkey to facilitate small and medium-sized enterprises' (SMEs) access to the EU Single Market. It starts by outlining the assessment framework, then presents the analysis of Dimension 7's three sub-dimensions: 1) overall co-ordination and general measures, which assesses the strategic documents and institutional framework for quality infrastructure co-ordination; 2) harmonisation with the EU acquis*, which analyses the capacities of quality infrastructure institutions as well as their alignment with international and European rules for technical regulations, standardisation, accreditation, metrology, conformity assessment and market surveillance; and 3) SME access to standards, which explores government initiatives to enhance and support access. Each sub-dimension section makes specific recommendations for increasing the capacity and efficiency of quality infrastructure systems in the Western Balkans and Turkey.*

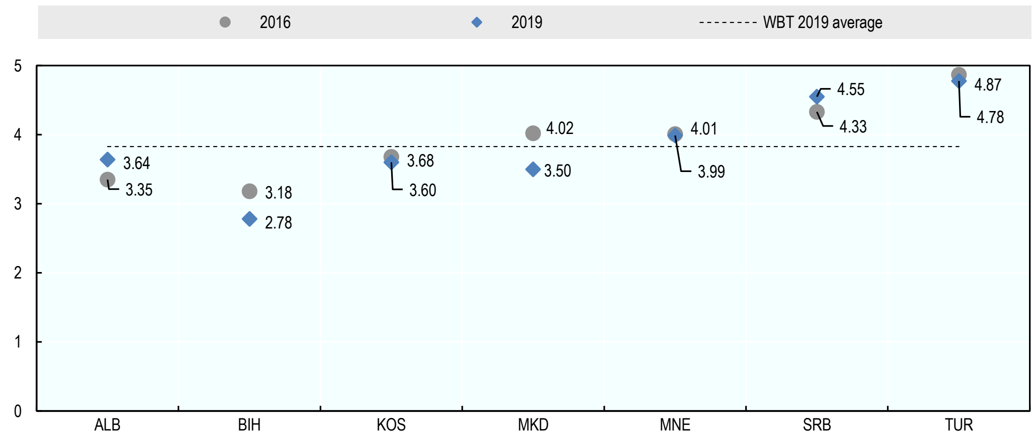
Key findings

- **Overall co-ordination of quality infrastructure policies has significantly improved across most economies.** However, challenges remain in a few economies, particularly in integrating market surveillance into the co-ordination mechanism of quality infrastructure pillars.
- **Most governments have renewed their strategic documents for adopting quality infrastructure legislation and transposing EU directives**. However, monitoring and evaluation is largely ineffective and insufficient in all economies.
- **All governments have taken steps to conclude mutual recognition agreements and participate in international quality infrastructure structures.** As a result, their quality infrastructure systems are increasingly consistent with the established principles in the EU and internationally.
- **Much focus has been placed on strengthening institutional and human resource capacities, though several economies will need to make additional investments.** Maintaining and expanding the current level of accreditation, conformity assessment and metrology services remain challenges.
- **Policy makers are not exploiting synergies at the regional level**. Although some co-operation is taking place regionally, there has been no attempt to collaborate to provide cost-effective quality infrastructure services at a regional level.
- **All governments have made progress in removing trade barriers by transposing European standards.** Nonetheless, national standards bodies in the Western Balkans have not succeeded in increasing their own revenues, and given the relatively small size of their economies, they struggle to reduce their dependence on public funding.
- **SMEs' access to standardisation in the WBT economies remains inadequate.** SMEs are not systematically informed about new standards or involved in their development. Effective programmes remain scattered, and very few economies have targeted and regular programmes to support SME awareness of and participation in standard development.

Comparison with the 2016 assessment scores

Overall, the regional average score in the area of standards and technical regulations stands at 3.83, which is slightly lower than the previous assessment of 3.92. The progress made in aligning with the EU *acquis* has been offset by poor performance in facilitating SMEs' access to standardisation, resulting in only minimal changes to the overall scores (Figure 8.1). Turkey and Serbia continue to lead the way, reflecting their more comprehensive provision of programmes and instruments for enhancing SMEs' access to standardisation.

Figure 8.1. Overall scores for Dimension 7 (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

The small changes in the overall scores since the *2016 SME Policy Index* can be explained by the limited implementation of its recommendations (Table 8.1). While almost all the assessed economies have renewed their strategic documents for adopting and implementing EU legislation, establishing a single central source of information for SMEs about exporting to the EU market remains a challenge for most. The assessed economies have also not made any significant improvements in monitoring and evaluation practices for technical regulations and legislation.

Table 8.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 7

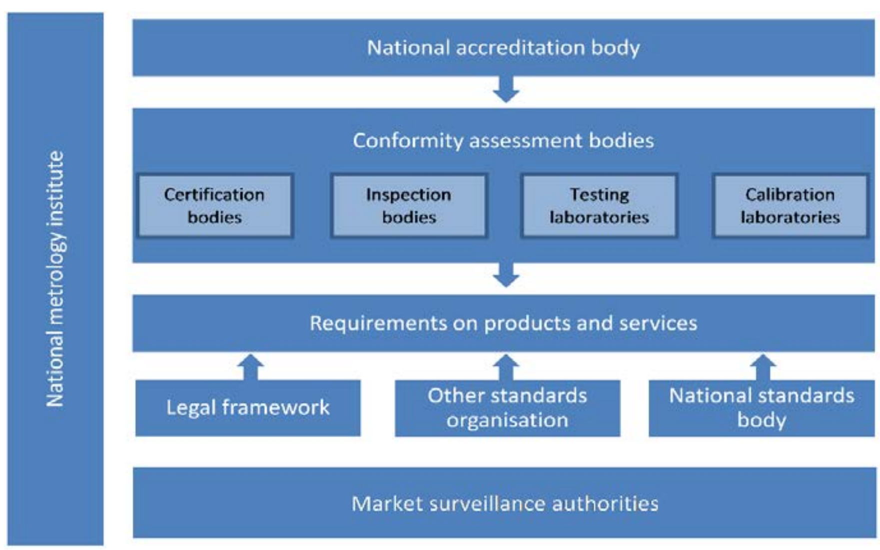
Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Develop and adopt strategic documents	Almost all the assessed economies have either finished drafting or adopted strategic documents. The only exception is Bosnia and Herzegovina, where the Committee for Technical Regulation has been in political deadlock since 2012. As a result, strategic documents on the transposition of EU sectoral legislation on industrial products and technical regulations in priority sectors are yet to be renewed.	Moderate
Provide single central sources of information	Little progress has been made in providing single sources of information specifically targeting the needs of SMEs when exporting to the EU market. However, Serbia has been operating a designated website since 2011. It provides relevant information concerning standards, conformity assessment and other elements needed for exporting to the EU market. Although not covering all of Bosnia and Herzegovina, a similar website in the Republika Srpska has been operating since 2009. Turkey also operates a single contact point for exporters to the EU Single Market.	Limited
Regularly evaluate technical regulations and legislation	Regular monitoring and evaluation of technical regulations and legislation remains an area for major improvement. These activities remain sporadic across the Western Balkan economies, and sometimes depend on the availability of donor funding; only Turkey conducts an annual evaluation.	Limited

Introduction

Technical regulations and standards promote public policy objectives such as protecting human health or the environment. They also underpin global markets by helping to remove trade barriers. When well-harmonised among trading partners, standards and technical regulations can facilitate cross-border trade by reducing uncertainty and building trust among market players.

The diffusion and implementation of technical regulations and standards cannot be ensured merely by adopting them, however. Relevant institutions are needed to evaluate and confirm compliance levels. Through services such as certification, testing, inspection and calibration, conformity assessment bodies evaluate and confirm compliance with requirements set out in the technical regulations and standards. Accreditation, metrology and market surveillance further complement the system and increase public confidence in product safety. Figure 8.2 summarises the structure of a national quality infrastructure system, in which interrelated elements build on each other to maximise their impact.

Figure 8.2. A national quality infrastructure system



Source: Blind, K. and C. Koch (2017[1]), *Introduction to Quality Infrastructure Management,* lecture at Technische Universität Berlin.

Against this backdrop, the Western Balkan economies and Turkey need to provide the necessary structures and fulfil their obligations regarding the free movement of goods in the lead up to European Union (EU) accession. Where products are governed by different national regulations, their free circulation in Member States will be hindered. Therefore, before joining the EU, governments need to make sure to align their product legislation with the EU *acquis* and transpose European standards into national ones while withdrawing contradictory national standards.

Improvements in quality infrastructure systems have the potential to further boost trade with the EU. In 2017, EU trade with the Western Balkan economies reached EUR 49 billion, while trade with Turkey reached EUR 154 billion. Although trade volume has doubled over the last 10 years, the openness of the WBT economies to trade remains low given their size, level of development and geographical location (Sanfey and Milatovic, 2018[2]). This untapped potential to expand trade with the EU was also confirmed by the recently adopted European Commission Strategy for the Western Balkans (EC, 2018[3]). In 2016, the Commission also proposed modernising and expanding the Customs Union with Turkey (EC, 2016[4]).

Currently, however, SMEs in the WBT economies do not fully benefit from the opportunities provided by the EU Single Market. This is partially because they lack information about the rules applied in the EU, as well as sufficient language skills. The cost of meeting the requirements to enter the Single Market are also often another obstacle.

In this context, ensuring SMEs in the WBT economies have access to reliable and efficient quality infrastructure services will be critical to improving their products and stimulating demand from the EU Single Market. Moreover, in light of the globalisation of value chains, technical regulations and standards are becoming important beyond the EU market (Blind, Mangelsdorf and Pohlisch, 2018[5]). The ability of firms, sectors and economies to absorb, adapt and disseminate up-to-date technology and participate in global value chains hinges on investments in quality infrastructure institutions and mechanisms (Doner, 2016[6]). Compliance with technical regulations and standards is not only a prerequisite for increasing exports, but also for industrial upgrading and ultimately promoting sustainable economic growth (Swann, 2010[7]; Guasch et al., 2007[8]).

Realising the benefits of technical regulations and standards and exploiting their economic potential means establishing an entire network of interdependent organisations and instruments of national quality infrastructure. This combines a system of public and private organisations with the relevant legal and regulatory framework, and the practices needed to support and enhance the quality, safety and environmental soundness of goods, services and processes. In establishing this network, it will be extremely important to pay special attention to SMEs' needs and challenges (UNIDO, 2017[9]).

Assessment framework

Structure

The overall objective of Dimension 7 (standards and technical regulations) is to analyse whether the economies have a well-functioning quality infrastructure system, how far it is aligned with the EU rules, and how governments are endeavouring to improve SMEs' access to the EU Single Market. The analysis revolves around the following three sub-dimensions:

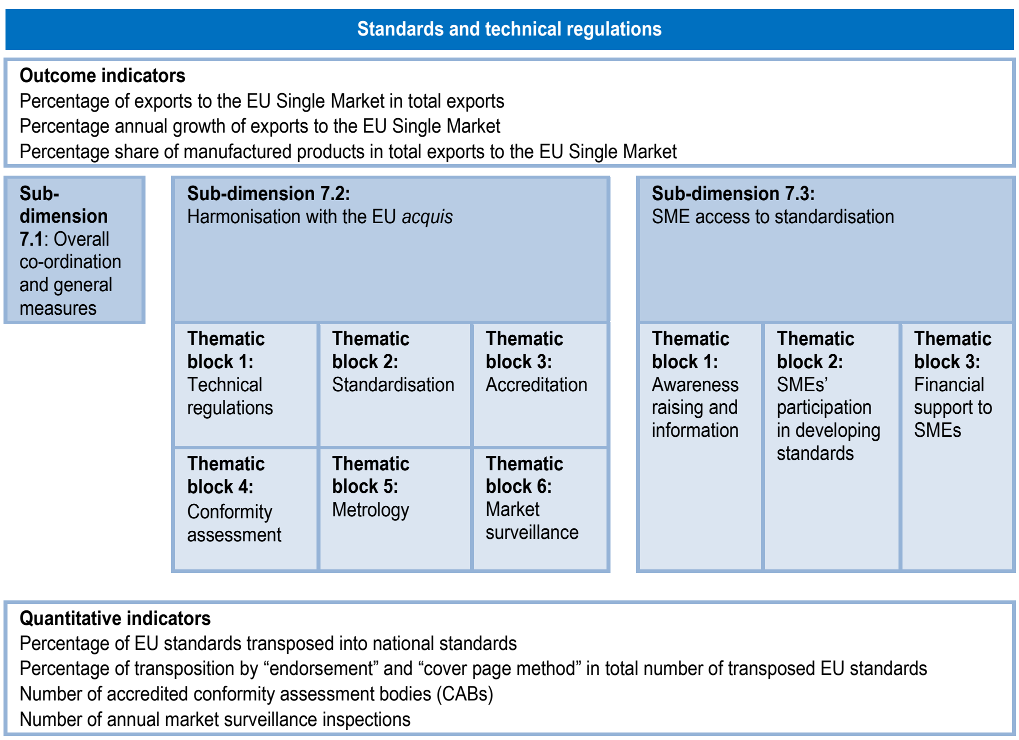
- **Sub-dimension 7.1: Overall co-ordination and general measures** looks at general policies and tools for overall policy co-ordination and strategic approaches to adopt and implement EU legislation. The assessment also evaluates if all relevant information on requirements for exporting to the EU is accessible to SMEs.
- **Sub-dimension 7.2: Harmonisation with the EU *acquis*** explores the national quality infrastructure systems by examining the main elements of their key pillars – technical regulations, standardisation, accreditation, metrology, conformity assessment and market surveillance – in six thematic blocks. More specifically, it analyses their institutional capacity, adoption and implementation of strategic

documents and integration into international structures. It also examines if the legislation and instruments are subject to regular monitoring and evaluation.

- **Sub-dimension 7.3: SME access to standardisation** evaluates government efforts to increase SME awareness of standards and facilitate their participation in developing standards. It also considers the availability and scope of the current financial support programmes aimed at enhancing implementation of standards in the SME population.

Figure 8.3 illustrates how the sub-dimensions and their constituent indicators make up the assessment framework for the standards and technical regulations dimension.

Figure 8.3. Assessment framework for Dimension 7: Standards and technical regulations



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

The assessment framework is prepared in full accordance with the Small Business Act (SBA) principle of encouraging SMEs to benefit more from the opportunities offered by the Single Market. This principle calls for government efforts both to promote SME participation in standardisation, and also to disseminate information on the use and benefits of European standards to SMEs (EC, 2008[10]).

The assessment was based on qualitative data collected with the help of questionnaires filled out by governments and independent consultants in the Western Balkans and Turkey. Face-to-face interviews were also held with SME owners and managers to uncover the challenges of complying with EU standards and technical regulations (see Annex C). In addition to qualitative inputs, the assessment draws on quantitative data from the national statistics offices in the assessed economies. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Key methodological changes to the assessment framework

Since the 2016 assessment, a number of changes have been introduced to the assessment framework (Table 8.2). A new sub-dimension has been added to gauge government measures aimed at improving SMEs' access to standardisation, while the structure and scope of the other sub-dimensions have been extended. In this assessment cycle, the first sub-dimension (overall co-ordination and general measures), now asks whether authorities have designated a body to co-ordinate the policies of all the quality infrastructure pillars. All the other sub-dimensions from the previous cycle have been consolidated into one sub-dimension (harmonisation with the EU *acquis*), which now also analyses education on standardisation and measures to facilitate SME access to conformity assessment.

In order to better evaluate the economies' performance on the revised Dimension 7, and in particular to capture the state-of-play of the new sub-dimension, the weights for the first two sub-dimensions have been adjusted.

Table 8.2. Key changes in the composition of Dimension 7

Sub-dimensions	Key changes since 2016 assessment
Sub-dimension 7.2: Harmonisation with the EU *acquis*	Consolidates the previous sub-dimensions on technical regulations, standardisation, accreditation, metrology, conformity assessment and market surveillance
Sub-dimension 7.3: SME access to standardisation	New sub-dimension introduced to evaluate government efforts for improving SMEs' awareness of the benefits of standards to facilitate their participation in developing standards and to reduce their financial burden when implementing standards.

Other sources of information

The main findings of the European Commission's EU accession progress reports for the Western Balkans and Turkey have been referred to throughout the chapter. In particular the progress made under Chapter 1 of the EU negotiations (free movement of goods) has been reflected in the analysis whenever relevant (EC, 2018[11]).

Analysis

Performance in EU trade

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension (see Figure 8.3) are designed to assess the WBT region's trade with the European Single Market, whose success hinges on good policies for standards and technical regulations, among other things. This analysis section starts by drawing on these indicators to describe the economies' trade performance with the European Union.

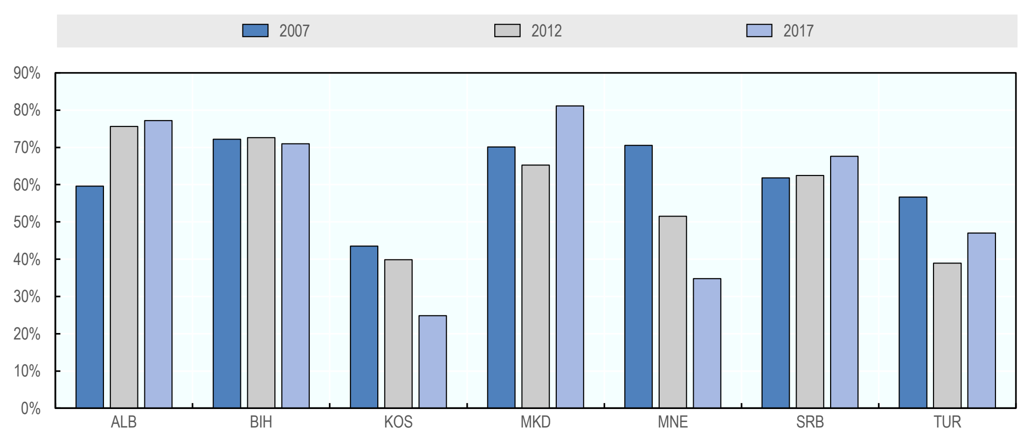
Trade has been a key aspect of the Western Balkans and Turkey's integration into the EU, and the EU has progressively concluded bilateral free-trade agreements with the Western Balkans and signed the Customs Union agreement with Turkey.

The Western Balkan economies were granted autonomous trade preferences in 2000 (renewed in 2015 and valid until 2020), leading to a substantial surge in exports to the EU Single Market. Autonomous trade preferences allow unlimited and duty-free access for almost all Western Balkan exports to the EU. The exceptions are wine, sugar, and certain beef and fisheries products for which preferential tariff quotas apply.

As for Turkey, the Customs Union agreement on industrial products with the EU entered into force in 1995. The agreement stipulated that Turkey needs to transpose the *acquis communautaire* concerning the abolition of technical barriers. This has resulted in early alignment efforts and the strengthening of Turkey's quality infrastructure system. In December 2016, the Commission proposed modernising the Customs Union agreement and extending it to areas such as services, public procurement and sustainable development. At the time of writing, this proposal was being discussed at the European Council.

The EU is already the largest export market for the majority of the WBT economies and accounts for around 70% of total exports in Albania, Bosnia and Herzegovina, the Republic of North Macedonia, and Serbia. It is also Turkey's largest export market, accounting for 47% of exports. While exports from most of the economies have increased modestly or remained stable, Kosovo[*] and Montenegro's exports to the EU Single Market have fallen as a share of total exports and remain below pre-crisis volumes (Figure 8.4). In both cases, this reflects a bigger increase in exports to the Central European Free Trade Agreement (CEFTA) region.[1] Despite this declining share, in Kosovo the volume of exports to the EU actually grew modestly over the period 2006-17.

Figure 8.4. Share of EU exports in total WBT exports (2007-17)



Note: Due to unavailability of 2007 data for Bosnia and Herzegovina, data for 2008 were used instead.
Source: Adapted from Eurostat (2018[12]), *International Trade of EFTA and Enlargement Countries dataset*, https://ec.europa.eu/eurostat/web/products-datasets/-/ext_lt_intercc.

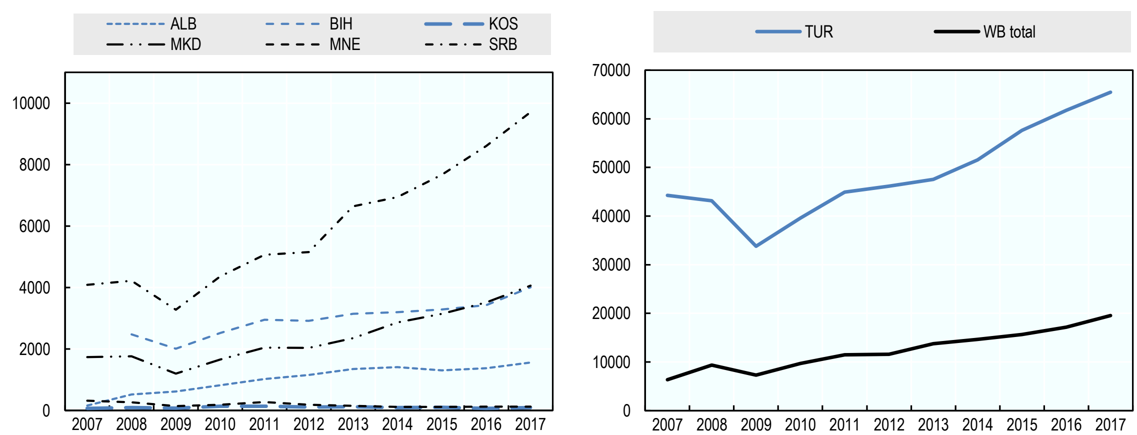
StatLink http://dx.doi.org/10.1787/888933937565

[*] This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Greater access to the EU Single Market has allowed the Western Balkans and Turkey to steadily increase trade with the EU since the early 2000s. Although the crisis of 2007 did not have significant negative effects on WBT exports to the EU Single Market, the Eurozone crisis of 2009 depressed export volumes in most WBT economies, which slumped by 21% on average. The first half of 2010 saw a vigorous rebound and has resulted in steady average growth ever since (Figure 8.5). In 2017 alone, the trade in goods volume grew 13.5% compared to the previous year (EC, 2018[13]).

Figure 8.5. WBT exports of goods to the European Union (2007-17)

EUR million



Source: Adapted from Eurostat (2018[14]), *Comext database*, https://ec.europa.eu/eurostat/web/international-trade-in-goods/data/focus-on-comext.

StatLink http://dx.doi.org/10.1787/888933937584

Manufactured goods continue to dominate trade with the EU, reaching 80% of the Western Balkan economies' exports to the EU Single Market in 2017 and 77% of imports (Eurostat, 2018[15]). Considering the strict requirements for manufactured goods exported to the EU Single Market, this trade composition further strengthens the case for facilitating SMEs' access to relevant standards across the WBT economies.

Against the backdrop of facilitated access to the EU Single Market, there is still potential to increase current trade volumes. Doing more to harmonise the economies' legal and institutional quality infrastructure frameworks with the EU *acquis* and to provide targeted support to SMEs for complying with standards and technical regulations would contribute to the WBT governments' efforts to further increase the trade volumes.

Overall co-ordination and general measures (Sub-dimension 7.1)

The overall co-ordination of quality infrastructure can improve the allocation and use of public resources, facilitate inter-agency information sharing and help to detect potential shortcomings in the system. Since a quality infrastructure system includes inter-related pillars and involves various public institutions, designating a body to co-ordinate services can also improve their effectiveness.

This section considers the extent to which the WBT economies have ensured the overall co-ordination of their quality infrastructure system. Similar to the previous assessment, Turkey continues to lead the way, while Kosovo, Montenegro, and Serbia have made significant progress in this policy aspect (Table 8.3).

Table 8.3. Scores for Sub-dimension 7.1: Overall co-ordination and general measures

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Overall co-ordination and general measures	2.75	1.83	2.75	2.50	3.00	4.00	5.00	3.12

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

The inter-institutional co-ordination of quality infrastructure is stronger

With the exception of Bosnia and Herzegovina, all WBT governments have functioning bodies to co-ordinate quality infrastructure processes. Nonetheless, the existence of a dedicated body does not always translate into effective co-ordination. For instance, in Kosovo, the Division for Quality Infrastructure at the Ministry for Trade and Industry has only three employees, rendering effective co-ordination challenging. Meanwhile, co-ordination of the quality infrastructure systems in both Albania and North Macedonia excludes market surveillance – hindering the holistic co-ordination of all of the quality infrastructure pillars.

The majority of WBT governments have also adopted and renewed strategies and action plans to transpose EU legislation for industrial products. Albania and North Macedonia are in the process of renewing their strategic documents. The political stalemate in the Committee for Technical Regulations of Bosnia and Herzegovina as the body involved in preparing programmes of transposition, persists due to disagreement over state and entity competences for issuing technical regulations and appointing conformity assessment bodies.[2]

The progress made in ensuring overall quality infrastructure co-ordination in the WBT economies has not been complemented by support systems for exporters (for more information, please refer to Chapter 12 on internationalisation of SMEs). Most economies lack designated web portals or single points of contact. Information about applicable EU laws and regulations remains fragmented, which not only creates potential discrepancies in the information but also forces SMEs to search for and contact the relevant institutions and agencies individually.

Only Serbia and Turkey have designated portals that provide specific information to SMEs interested in exporting to the EU Single Market. In Serbia, a user-friendly website called TEHNIS provides comprehensive information on export requirements and government support mechanisms for exporters (Box 8.1). Likewise, information concerning compliance with export requirements is also provided in Bosnia and Herzegovina, although only in the Republika Srpska (RS). Turkey has established a single contact point for exporters, which enables SMEs to directly contact the Ministry of Trade experts via phone, on line and via a mobile phone application. It also allows SMEs to find the relevant forms for exports and to reach Turkey's trade representations abroad. Kosovo's Private Sector Development Strategy 2018-2022 envisages the establishment of a single point of contact for trade in services, but no such initiatives seem to be in preparation for trade in products.

Box 8.1. TEHNIS: Serbia's information portal and database

In most of the economies, information on export requirements and compliance mechanisms, where available, are fragmented. There are no dedicated websites containing all the necessary information and guidance for SMEs to navigate through the regulations and standards requirements. Equally, SMEs often lack information on the support schemes available to them. A well-designed and comprehensive pool of information would therefore benefit SMEs, which often do not have the time, resources or the personnel capacity to gather information from various sources, institutions and websites. This poses another challenge to SMEs when accessing international markets and upgrading their production.

The TEHNIS website in Serbia is a good practice example that stands out in the region. TEHNIS was developed by the Ministry of Economy (Sector of Quality and Product Safety) with the objective of establishing a single enquiry point for technical legislation in Serbia. It provides information on all elements of quality infrastructure and guides SMEs in meeting product requirements and regulations. Legislation is presented thematically, providing information about the respective directives, e.g. in the field of machinery, as well as corresponding guides on how to comply with the requirements. The TEHNIS database also contains registers of valid technical regulations, draft technical regulations, designated and authorised conformity assessment bodies, and recognised foreign certificates. SMEs can also find contact information for all the relevant quality infrastructure institutions, brochures and latest news.

Source: Ministry of Economy (2018[16]), *Sector for Quality and Product Safety website*, www.tehnis.privreda.gov.rs.

The way forward for overall co-ordination and general measures

Although overall co-ordination of quality infrastructure policies has significantly improved in the WBT economies, there is scope to improve general measures to support exporters. In particular, governments should:

- **Establish a single source of tailored information for SMEs**. This could consist of single web portals or trade help-desks and could include guidance in local language(s) for SMEs on health, safety, marketing and the technical standards their products need to meet. Coverage could also be extended to include the necessary shipping forms when exporting or to provide information on trade agreements and trade representations abroad.

Harmonisation with the EU acquis (Sub-dimension 7.2)

In the course of accession to the EU, the candidates are required to transpose the EU technical regulations into national legislation. Harmonising national regulations with EU product legislation ensures the free movement of goods across the EU Single Market. It also benefits businesses by reducing regulatory burdens and ensuring a predictable legal framework. A series of directives and regulations defines the essential requirements that each product, process or service must fulfil before being placed on the EU market.

This section examines the extent to which quality infrastructure rules and procedures in the WBT economies are harmonised with the EU *acquis* – i.e. the fundamental framework to enable SMEs to access the EU market. The assessment considers all six quality infrastructure pillars, from technical regulations to standardisation, accreditation, conformity assessment, metrology and market surveillance (Table 8.4)

Table 8.4.. Scores for Sub-dimension 7.2: Harmonisation with the EU *acquis*

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Technical regulations	3.53	2.47	4.13	3.00	3.93	5.00	5.00	**3.87**
Standardisation	4.25	2.88	3.88	3.50	4.00	4.50	4.75	**3.97**
Accreditation	4.15	3.44	4.62	4.92	4.69	4.92	5.00	**4.53**
Conformity assessment	3.53	2.07	3.60	2.80	4.00	4.73	4.80	**3.65**
Metrology	4.33	3.89	3.94	4.11	5.00	5.00	5.00	**4.47**
Market surveillance	4.20	3.80	3.80	4.60	5.00	4.60	5.00	**4.43**
Weighted average	**4.00**	**3.09**	**3.99**	**3.82**	**4.44**	**4.79**	**4.93**	**4.15**

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

Overall, the level of preparation in the WBT economies for the free movement of goods has improved. Of the seven economies, Serbia and Turkey are most advanced in their harmonisation efforts, particularly in transposing and enforcing technical regulations. Albania has made the most progress by improving its market surveillance activities. In Bosnia and Herzegovina, strategic documents on the adoption and implementation of EU legislation for industrial products and technical regulations in priority sectors have not been renewed. Following prolonged political deadlock in North Macedonia, new strategies and action plans are currently being developed.

Most governments have aligned their technical regulations, although regular monitoring and evaluation are often lacking

With the exception of Bosnia and Herzegovina, progress has been made across all WBT economies in transposing EU technical regulations. In Bosnia and Herzegovina, the process has stagnated since the aforementioned Committee for Technical Regulations responsible for stopped convening in 2012. As a result, EU legislation has not been aligned in a uniform manner, leading to inadequate harmonisation with the EU *acquis*.

The training needs of the institutions implementing technical regulations have been assessed in all the WBT economies, except North Macedonia. In Serbia and Turkey, the staff of government ministries and agencies are trained in new regulations and their implementation; however, this training is usually one-off and sporadic in nature.

Most of the economies have weak mechanisms to monitor and evaluate the impact of the implementation of technical regulations. Regular monitoring and evaluation only take place in Serbia and Turkey – in other economies the arrangements are more ad hoc.

Adoption of European standards is progressing, though mostly by endorsement

The national standards bodies in the WBT economies have increased their efforts to adopt EU standards. However, the region shows two distinct levels of performance, with

Albania, North Macedonia, Serbia and Turkey achieving much higher adoption rates (Table 8.5).

Table 8.5. Adoption of European standards in the Western Balkans and Turkey

	Adoption rate
ALB	98%
BIH	85%
MKD	98%
KOS	50%
MNE	72%
SRB	98%
TUR	98%

Source: National standards bodies in the Western Balkans and Turkey.

In most cases transposition involves issuing an "endorsement notice"[3] or by translating only the cover page – the "cover page method". As a result, standards are usually not available in local languages making it hard for SMEs to find the relevant standards, fully grasp their content and implement them correctly. This finding was further reinforced in the interviews conducted with private sector. For instance, Turkey has only fully translated 3 686 EU standards – just 18% of all adopted EU standards. The share is even lower in the Western Balkan economies.

In spite of linguistic similarities in the Western Balkans, regional co-operation has not been used as a cost-effective way to translate European standards.

National standards bodies lack funding and human resources

National standards bodies (NSBs) in the Western Balkans and Turkey grapple with financial issues, since they struggle to raise their own funds and continue to depend largely on public funding. The challenge is that these bodies collect very little revenue from sales of standards and other services offered to the private sector. Moreover, in certain cases, the revenues they collect are funnelled into general government budgets, further undermining their already weak incentives to diversify revenue sources. For instance, the Kosovo Standardisation Agency is administratively part of the Ministry of Trade and Industry and lacks its own budget or bank account, and the income it generates from the sales of standards goes entirely to the state budget.

Some NSBs have already cited lack of staff due to limited and fluctuating budgets as a significant obstacle to carrying out their activities. This is the case for regular activities in Bosnia and Herzegovina, Kosovo and Montenegro, while the NSBs in Albania and North Macedonia foresee a need for a more employees in order to strengthen and diversify their services.

Turkey's national standards body, the Turkish Standards Institution (TSE), provides conformity assessment services, thereby raising additional revenue to support its other standardisation activities. Currently, the TSE is the only national standards body in the WBT region that does not rely on public funding. Although the direct engagement of public NSBs in conformity assessment has certain benefits, such as offering competence-building activities for private conformity assessment bodies (CABs) and generating financial resources for standardisation services, there are also certain risks. First, it might crowd out private investment in CABs; and second, it might create biased incentives for

NSBs to develop unnecessary standards just to generate some certification business. It is therefore crucial to maintain a clear separation between NSBs' activities in standardisation and conformity assessment, and also to ensure that NSBs only offer conformity assessment services in specific sectors which have major relevance for the society and economy in general, and where there is no business case for private CABs to offer those services.

National standards bodies are well integrated into European structures and co-operate regionally

All national standards bodies except the Kosovo Standardisation Agency actively participate in the European standards system. The national standards bodies of North Macedonia, Serbia and Turkey are members of the European Committee for Standardization (CEN) and European Committee for Electrotechnical Standardization (CENELEC), allowing them to represent their economies' interests on their technical committees. The other economies have affiliate status. In 2017, Kosovo signed an agreement with CEN and CENELEC for direct access to EU standards. All the WBT governments except Bosnia and Herzegovina have also carried out needs assessments into the investment and technical expertise required to participate in the European standards system.

Regional co-operation among national standards bodies has also been deepening in the Western Balkans and Turkey. For example, CEN has been running a project aimed at the full implementation of EU product legislation for electrical/electronic equipment and construction products in the six economies of the Western Balkans. The project is financed by the Swedish International Development Cooperation Agency (Sida) and the European Free Trade Association (EFTA). It includes the organisation of workshops and training, networking events, and proficiency testing. However, regional co-operation is not limited to donor-funded initiatives. For example, in 2018 the national standards bodies of Turkey and Serbia signed a memorandum of understanding (MoU) to facilitate co-operation in the certification of management systems and products (e.g. halal), as well as in organising training and expert exchanges.

Education in standardisation is almost non-existent

Standards have the potential to achieve public objectives (e.g. protecting human health or the environment), while also facilitating trade by reducing market uncertainty and information asymmetries between producers and consumers. This potential can only be fully harnessed if the relevant actors in the standardisation process (regulatory authorities, standards developing organisations, academia, businesses and consumers) are able to participate and make informed decisions (Wilfried and de Vries, 2011[17]). Since the process entails a significant level of technical knowledge, education in standardisation can help businesses and consumers to take on a contributory role and enhance the effectiveness of overall participation.

Education in standardisation in the WBT economies is limited to small-scale and irregular activities and lacks a coherent approach, thereby depriving the economies from fully realising the advantages of standards. While various programmes have been prepared to educate and train businesses in implementing standards, they usually do not cover topics related to developing them. Moreover, education about standardisation has not been well established in academic programmes or curricula. While national standards bodies and public universities have signed co-operation agreements in several of the economies, they are limited to irregular seminars. Furthermore, these seminars are not complemented by attractive study materials and rarely include practical classes.

Standardisation education is not included in government strategies or action plans in the majority of the economies. Only Serbia and Turkey have defined clear government actions to systematically improve and expand education activities (Box 8.2).

Box 8.2. Standardisation education by the Turkish Standards Institution

Education is vital to enable SMEs to exploit the benefits of implementing and developing standards. The first step is to raise awareness of the topic through training and targeted workshops, including on the strategic relevance of standardisation, especially in the EU, as well as how to participate in standardisation in order to shape the content of future standards.

The Turkish national standards body, the Turkish Standards Institution (TSE), has taken active measures along with its education department to address the low level of awareness of standards and standardisation. The TSE's activities stand out in the region, and demonstrate that targeted and specific activities can reach current and future stakeholders and raise the general awareness of standards and standardisation.

Striving to bring the topic into higher education curricula, the TSE is co-operating with four universities through activities such as delivering lectures on standards and quality infrastructure. The co-operation involves lectures by TSE staff members, either on site or through distant-learning programmes, as well as training for university staff in specific standards (such as ISO 9001), statistical process control, and sector-specific content such as medical instrument tests and calibration.

To raise awareness sustainably, activities have also been specifically targeted at children to introduce them to standards and standardisation – an approach which stands out in the region and also within the EU. A quarterly journal, containing specifically designed cartoons, introduces children to the world of standards and standardisation in a playful way.

The general public is reached through monthly online journals on standards and standardisation.

Source: TSE (2018[18]), *Turkish Standards Institution website*, https://en.tse.org.tr/.

Accreditation infrastructure is solid and conformity assessment services have increased in priority sectors

The increasing number of specific EU standards and technical regulations has brought about a need for effective systems in the Western Balkans and Turkey to evaluate compliance. National accreditation bodies provide an authoritative statement on the competence and credibility of conformity assessment bodies (CABs), which in turn evaluate whether products fulfil the requirements of the EU Single Market (European Accreditation, 2018[19]). SMEs often need to show proof of their compliance with the requirements set out in standards and regulations. For this, they depend on the availability of reliable conformity assessment services, such as certification.

National accreditation bodies in the assessed economies have increased their participation in European accreditation systems. They are either full members of the European co-operation for Accreditation (Albania, Montenegro, North Macedonia, Serbia and Turkey) or associate members (Bosnia and Herzegovina, and Kosovo). Likewise, most WBT economies are signatories of the European Accreditation Multilateral Agreements (EA MLA)[4] or Bilateral Agreements (EA BLA). These agreements provide confidence that national accreditation is operated in a manner that is harmonised and consistent with accreditation procedures in the EU. This means that conformity assessments carried out by accredited CABs in the WBT economies are accepted across borders, opening up markets for SMEs. Having been tested or certified once, SMEs do not need to re-test or re-certify their product. In the region, the EA MLAs of Turkey and Serbia cover the highest number of scopes, seven and six respectively (Table 8.6).

Table 8.6. Scope of European accreditation agreements in the WBT economies

Accreditation scopes	ALB	BIH	MKD	SRB	TUR
Calibration		X	X	X	X
Testing and medical examination	X *	X *	X *	X	X
Product certification			X	X	X
Management systems certification	X		X	X	X
Certification of persons				X	X
Inspection	X	X	X	X	X
Validation and verification					
Proficiency testing providers					X

Notes: Kosovo and Montenegro are not EA MLA or BLA signatories, * Signatory for testing laboratories only; not signatory for medical laboratories.
Source: European Accreditation (2019[20]), *Directory of EA Members and MLA Signatories*, https://european-accreditation.org/ea-members/directory-of-ea-members-and-mla-signatories/.

The WBT economies have also concluded co-operation agreements with each other. In October 2018, Bosnia and Herzegovina and Serbia signed an MoU to mutually recognise documents issued by accredited laboratories for industrial non-food products, which will further remove trade barriers and facilitate exports for SMEs.

Almost all WBT governments have adopted legislation on conformity assessment in line with the EU *acquis*. Their legislation has also moved towards the principles applied in European harmonised legislation, i.e. the presumption of conformity, self-certification and absence of mandatory standards. In Bosnia and Herzegovina, the effectiveness of the law on conformity assessment remains limited, since the Republika Srpska continues to develop and implement its own legislation separately. As with other quality infrastructure pillars, the legislation on accreditation and conformity assessment in the WBT economies is generally not subject to regular monitoring and evaluation.

While most governments declare their accreditation body to be fully operational, in Bosnia and Herzegovina and Kosovo, additional staff will be required to maintain the current level of accreditation services. Accreditation of new CABs remains a major issue for Kosovo's accreditation body, which currently employs only three auditors. As the number of CAB applications continues to increase, Serbia foresees the need for additional staff and Albania has allocated increasing funds to hire auditors and technical experts for their accreditation.

Since many economies do not need or cannot afford CABs in all sectors, the focus of WBT governments has primarily been to ensure the existence of conformity assessment services in mandatory areas and their priority sectors.[5] Although the number of CABs has increased across the WBT economies, SMEs in certain sectors still need to seek conformity assessment abroad in several economies. For instance, conformity assessment services are not available for the food and electrical equipment sectors in Albania, or for lift and lift parts manufacturers in Kosovo.

SMEs in all WBT economies can check the availability of conformity assessment bodies and services through online CAB registries.

Several metrology bodies in the WBT economies lack resources

Metrology ensures that reliable measurement systems and equipment are used in production, and tests whether products and processes adhere to standards and regulations.

All the WBT governments have established institutions responsible for metrology and they are well integrated into European and international organisations. With the exception of Kosovo, their metrology bodies are associate members of the European Cooperation in Legal Metrology and members of the European Association of National Metrology Institutes (EURAMET). Their integration and co-operation with these bodies ensures alignment in industrial as well as legal metrology, providing SMEs with access to reliable metrological services such as equipment calibration.

However, it is debatable whether the Western Balkan economies all need their own metrology bodies, given the difficulty of financing metrology bodies in smaller economies (Guasch et al., 2007[8]). The need for additional financial resources has consistently been voiced by national metrology bodies in the region – with the lack of laboratories and adequate premises notably highlighted as obstacles in North Macedonia and Montenegro respectively.

Co-operation among metrology bodies in the region is well developed. A number of MoUs have been signed, most recently between the Institute for Metrology of Bosnia and Herzegovina and North Macedonia's Bureau of Metrology (in August 2018). Several WBT metrology bodies also participate in EURAMET's inter-laboratory comparison programmes, which allow test results to be compared and the quality assurance of testing services. For example, Albania, Bosnia and Herzegovina, Kosovo, Montenegro, and North Macedonia all participate in regional volume comparisons.

Market surveillance activities have increased, but focus mainly on enforcement rather than supporting compliance

An important challenge for governments is achieving high levels of compliance with regulations, while reducing the burden on enterprises. Although the ultimate goal of market surveillance remains protecting consumers from unsafe products, a well-formulated system will also protect businesses from disproportionate costs and unfair competition.

All WBT economies have legislation on market surveillance that is in line with the EU *acquis*. Implementation has mainly focused on enforcement – recalling products and imposing penalties. In this context, market surveillance authorities have concentrated their resources on increasing the number of inspections and hiring new inspectors, without developing upstream measures to support and encourage SMEs to comply with technical regulations. They have also made only limited efforts to provide information and guidance on legal requirements for products in order to promote compliance among enterprises. One exception is the annual guide for economic operators produced by the Market Surveillance Agency of Bosnia and Herzegovina, which serves as a good practice example of how to help economic operators to place safe products on the market (Box 8.3).

Box 8.3. Bosnia and Herzegovina's guide for economic operators

Since 2016 the Market Surveillance Agency of Bosnia and Herzegovina has published guides to help manufacturers, importers and distributors to bring non-food consumer products into compliance with the regulations and applicable standards. The guide is published annually in local languages and English. It provides information on the most common risks for users and areas of non-compliance for each product that will be the focus of surveillance in the year of publication.

So that companies can avoid penalties and the withdrawal of their products from the market, the publication provides detailed guidelines on labelling of products, information to be included in instructions for use and functionality of products. Since it includes the list of products that pose certain safety risks, consumers may also use the publication to make informed purchases.

The agency also publishes brochures for individual products with more detailed information to help manufacturers, importers and distributors in Bosnia and Herzegovina fulfil their obligations arising from the regulations and the standards applicable in Bosnia and Herzegovina.

Source: Market Surveillance Agency of Bosnia and Herzegovina (2018[21]), *Publications*, http://annt.gov.ba/Za_poslovne_subjekte/publikacije/Archive.aspx?langTag=en-US&template_id=172&pageIndex=1.

The majority of the WBT economies have also made progress in co-ordinating market surveillance activities through a designated co-ordination body. However, in Kosovo and North Macedonia, overlapping competences in secondary legislation and a large number of competent authorities are increasing government expenses as well as the compliance burden for enterprises. Acknowledging this problem, Albania established the State Inspectorate for Market Surveillance in 2016, merging various market surveillance activities and clearly defining its competences and tasks. Meanwhile, Kosovo is planning to decrease overlapping and parallel inspections by merging the current 36 market surveillance directorates into 15. Although improving, the overall effectiveness of market surveillance in North Macedonia is inhibited by the multiple pieces of legislation which continue to regulate inspections.

Cross-border collaboration also remains a challenge. While discussions continue in various forums on developing a module for exchanging information about dangerous products (test reports, checklists, risk assessments, etc.), no steps have been taken to implement it.

The way forward for harmonisation with the EU acquis

The WBT governments have taken positive steps to enhance their quality infrastructure systems. However, several issues related to operating self-sufficient quality infrastructure bodies and sustaining efforts in harmonisation with the EU *acquis* warrant further attention:

- **Explore regional collaboration and consider taking steps to establish the common use of quality infrastructure at the regional level.** Establishing fully fledged national quality infrastructure requires considerable investment and ties up resources over the long term. For many economies with limited financial means and a relatively modest demand for some of the quality-related services, this is neither feasible nor useful. Instead, the common use of a shared and complementary infrastructure or intensified expert exchange appear to be better approaches (BMZ, 2004[22]). A first step could be to consider the costs of and demand for quality infrastructure services to find out which services individual economies should establish themselves, and which could be provided at the regional level.
- This SBA assessment reveals the scope to step up regional co-operation for the following quality infrastructure pillars in the Western Balkans and Turkey:
  - **Accreditation:** since national accreditation bodies require substantial resources to cover all conformity assessment areas, the economies could consider only providing accreditation services for their priority sectors. An individual economy should base its decision to add or remove specific areas of accreditation on a cost-benefit analysis of market priorities, demand for auditing and availability of audit experts. Where accreditation would not be effective and efficient, governments could consider regional solutions, such as recognising foreign accreditation or contracting with another accreditation body in the region to undertake accreditation on their behalf.
  - **Metrology:** operating a metrology body in smaller economies is a costly endeavour. Policy makers should therefore conduct a cost-benefit analysis to assess which services are essential in their national economies. For instance, it would not be economically reasonable for national metrology bodies to develop a system for metrological traceability in all areas of metrology. Stronger regional co-operation in metrology activities would therefore reduce the financial burden of maintaining current levels of investment in national metrology bodies.
  - **Standardisation:** regional co-operation could be further stepped up by building on existing bilateral co-operation agreements between some national standardisation bodies in the WBT region. A regional database and network covering applicable local and international standards in the region could be established to improve information and knowledge sharing. This would also facilitate intra-regional trade, and contribute to the efforts of the WB governments under the Multi-Action Plan for the Regional Economic Area[6]. Moreover, given the linguistic similarities in the region, standardisation

bodies could create synergies by translating the relevant EU standards, and sharing the cost among themselves.

- **Conformity assessment:** if not available locally, governments should facilitate SMEs' access to conformity assessment in neighbouring economies. Government support could include measures to cover extra costs incurred by SMEs when seeking conformity assessment abroad. This would also reduce the costs of providing those services in their economy.
- **Market surveillance**: in order to establish predictable and consistent enforcement of regulations across the WBT economies, market surveillance authorities should enhance their co-operation by exchanging information on unsafe products and measures carried out by national authorities (as well as producers or distributers). To achieve this, national authorities could establish contact points to improve the co-ordination of market surveillance activities. The WBT economies would also benefit from mapping sector-specific challenges and establishing region-wide working groups to produce guidelines for joint action.

- **Scale up the revenue-earning services of national standards bodies**. NSBs could diversify their revenue-earning services by preparing packages and subscriptions tailored to the needs of SMEs in particular sectors. Such offers in the Western Balkans and Turkey would make it easier and less expensive for SMEs to implement the standards they require while generating additional revenues for national standards bodies. NSBs in the WBT region should also aim to offer innovative services to SMEs, which could bring them additional sources of revenue and support their regular standardisation activities (see Box 8.4 for some EU/OECD examples).

Box 8.4. Innovative products and solutions offered by national standards bodies in the EU and the OECD

National standards bodies in the EU have moved towards providing innovative tools and services to help SMEs implement standards. Some of the services include:

- **Online management of standards by Austrian Standards International.** This innovative solution, known as effects 2.0, is convenient for managing the standards and norms applied on line. SMEs can quickly access documents and stay informed of their current status of standardisation through automatic updates.
- **The online standards collection viewing service by the Estonian Centre for Standardisation (EVS)**. Standards change over time, reflecting progress in science, technology and systems. Keeping up with those changes is often an inconvenient and time-consuming task. The EVS offers a standards monitoring service which allows SMEs to create a list of relevant standards and receive e-mail notifications about any changes in these standards. Notifications include replacement of the selected standards with newer ones, amendments, correction, withdrawals, or translations into the national language.
- **E-learning by the Polish Committee for Standardization (PKN).** In addition to traditional classroom training, the PKN has introduced training for those who prefer distance learning. This type of training translates traditional presentations

into user-friendly screen-based forms. The training courses combine course material with tests to certify participants' knowledge.

Sources: Austrian Standards (2018[23]), www.austrian-standards.at/home/; Estonian Centre for Standardisation (2018[24]), www.evs.ee; Polish Committee for Standardization (2018[25]), www.pkn.pl.

- **Include standardisation topics in national secondary and tertiary curricula.** The role of education in standardisation could be improved through a number of measures. First, the relevant standardisation topics could be embedded in high school courses as well as university programmes (such as electrical, mechanical or civil engineering; and economics). Second, co-operation between national standardisation bodies and academic institutions could facilitate the exchange of experience and expertise. As an example, the Rotterdam School of Management hosts a Chair in Standardization – endowed by the Netherlands Standardization Institute (NEN) – to give courses at bachelor's and master's levels, as well as supervising master's and doctoral projects. Co-operation could extend to organising practical classes to improve the skills required for standardisation processes.

  All the relevant stakeholders need to engage in developing study materials that are attractive to both students and teachers. The CEN and International Organization for Standardization (ISO) have repositories of teaching materials (for primary, secondary and higher education) with examples of the different materials used throughout the world.[7]

- **Complement the enforcement of regulation with measures to increase transparency and compliance.** Regulatory enforcement agencies, in close co-operation with business associations, should develop and publish guidance notes or toolkits that help SMEs understand regulations and how to comply with them in the most common situations and sectors. For instance, the Consumer Product Safety Program of Canada publishes guides and holds webinars specifically for manufacturers, distributors and retailers to introduce them to their regulatory responsibilities (Government of Canada, 2018[26]). Governments could also introduce "self-check" tools to allow SMEs to understand their ability to comply with the regulations. These publications and tools should be tailored to specific sectors of operation.

SME access to standardisation (Sub-dimension 7.3)

Governments across WBT economies can improve the growth and competitiveness of SMEs by fostering the use of standards. SME involvement in the standardisation process gives them a head start in adapting to market demands and new technologies. However, evidence shows that many SMEs still fail to profit from using standards and face a series of barriers when participating in their development (de Vries et al., 2009[27]). As a key engine of the WBT economies, SMEs need to receive adequate and sustained support in order to benefit from standards and standardisation.

This section gauges whether the existing policy frameworks foster SME awareness of the benefits of standards, facilitate their participation in developing standards and reduce the financial burden of implementing standards (Table 8.7).

Table 8.7. Scores for Sub-dimension 7.3: SME access to standardisation

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Awareness raising and information	4.25	3.97	3.50	4.50	4.33	4.83	4.33	**4.24**
SMEs' participation in developing standards	2.50	1.00	2.50	2.50	2.50	3.50	3.50	**2.57**
Financial support to SMEs	1.80	1.93	1.80	2.00	1.80	3.60	3.80	**2.39**
Weighted average	**2.85**	**2.30**	**2.60**	**3.00**	**2.88**	**3.98**	**3.88**	**3.07**

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

Overall, performance varies across the three aspects of this policy area. While basic measures are in place for awareness raising, the participation of SMEs in standards development and financial support instruments still leaves room for improvement. Serbia and Turkey currently provide the most advanced support in enabling SME access to standardisation.

Authorities are improving awareness of standards and their benefits

SMEs are often unaware that by using standards they can boost efficiency, increase confidence in their clients and open new markets. The potential benefits of using standards remain overshadowed by perceptions that they are an onerous burden.

All WBT governments have also introduced initiatives to promote the benefits of standards and standardisation. The current programmes remain focused on promotional campaigns and training events for SMEs. However, they are infrequent and irregular in Albania, Bosnia and Herzegovina, and Kosovo. In addition, SMEs are often uninterested unless the events are tailored to their very specific segment or group. National standards bodies often disseminate generic materials prepared by international standards organisations, instead of producing practical guides with instructions and solutions tailored to the local context. Therefore, there is still significant room for improvement when it comes to preparing relevant materials that present success stories from the region. The Living Standards Award by the national standards body of Austria is one example of how the use of standards can be promoted by identifying and showcasing local success stories (Box 8.5).

While all WBT authorities have ensured easy access to their database of national and European standards, identifying relevant standards remains an issue for SMEs. Since standards are frequently revised and new ones adopted, SMEs need to know how to keep track of relevant standards for their area of operation. The monthly journal published by Turkey's national standards body stands out as a positive example of how this can be achieved. Offered in print and online versions, the journal caters for SMEs in the manufacturing industry and aims to improve implementation of standards specific to this sector. Meanwhile, in Serbia, the Institute for Standardisation offers SMEs free consultations to learn about the relevant standards for their operations, and the Serbian

Chamber of Commerce organises regular meetings with SMEs operating in particular sectors to inform them about the latest relevant standards.

National standardisation bodies increasingly co-operate with business associations to provide a communication channel with SMEs. In Montenegro, North Macedonia, Serbia and Turkey, such co-operation is regular and business associations send updates to their members concerning new developments and upcoming events. Nevertheless, joint promotional campaigns or sectoral roadshows remain sporadic across the economies.

Box 8.5. Austria's Living Standards Award

In an effort to promote standardisation and raise awareness about the benefits of standards, Austrian Standards International presents annual awards to innovative enterprises, private and public-sector organisations, and start-ups. ASI aims to promote the use of standards in an exemplary way, as well as to promote strategic considerations in the development of standards. The award is also used as an opportunity to prepare promotional materials and showcase success stories in implementing standards. The award criteria usually include:

- strategically oriented application of standards
- strategic management of standards at several locations
- exemplary development of new/existing standards at the national/international level
- successful implementation of an innovative project involving the application/development of standards
- early consideration of standards in an emerging topic (early adopter)
- other extraordinary achievements in the context of standards (e.g. scientific paper).

Source: Austrian Standards (2018[28]), *Living Standards Award 2019*, www.austrian-standards.at/en/our-events/living-standards-award-2019/.

SME participation in the development of standards is weak

SMEs' involvement in standardisation remains low across OECD and EU countries, even though evidence shows that it has a positive impact on their profits (Wakke, Blind and Ramel, 2016[29]). SMEs often regard the standardisation process as being inflexible, as it does not take into account the limited time, personnel or financial resources at their disposal (de Vries et al., 2009[27]).

Across the Western Balkans and Turkey, NSBs struggle to get SME representatives to participate in technical committees for standards development. Interviews conducted in the region reveal that SMEs perceive their participation as futile, and that such meetings keep them away from their "real work".

To encourage SME participation, Serbia's NSB extends invitations to technical committee meetings through phone calls, and organises them in different cities across the country. In a similar vein, Turkey's NSB has signed a co-operation protocol with the Union of Chambers and Commodity Exchanges to facilitate the effective participation of SMEs through regular and sector-specific meetings. In North Macedonia, the NSB has established a working group to develop an action plan to increase SMEs' participation, which is planned to be completed by 2019.

While the other economies largely lack any proactive approaches to increasing SME participation in standards development, they do publish calls for feedback on drafts of standards during their development (although in Bosnia and Herzegovina, the drafts are yet to be made publicly available for feedback). However, SME participation in these public calls remains low, which might be partially attributed to the fact that national standards bodies do not produce any follow-up reports specifying how private sector feedback was taken into account in the standards development process. Similarly, the involvement of SMEs is rarely monitored and evaluated, with the exception of Serbia, which regularly produces reports on their participation in the standardisation process.

Financial support for SME access to standardisation exists but varies in scope

Given SMEs' limited resources, financial support programmes are essential to help them acquire and implement standards, as well as to ensure their overall participation in standards development.

Only Serbia and Turkey offer standards at reduced prices for SMEs. In other economies, discounts for the acquisition of standards are limited to members of technical committees. Although SMEs could also benefit from these discounts, they are less likely to participate in technical committees than larger enterprises, so they rarely do.

Programmes supporting the implementation of standards differ significantly across the seven economies in their source, level and scope. With the exception of Kosovo, all governments operate some financial support programmes, albeit often small-scale and irregular. This support is usually provided within the scope of assisting SME exporters and improving SME competitiveness.

For instance, in Albania, the Competitiveness Fund run by the Albanian Investment Development Agency (AIDA) supports SMEs exporting their products to foreign markets by reimbursing up to 70% of their costs for product certification, other conformity assessments and introducing quality management systems. However, the requirement to demonstrate the ability to finance the entire project costs can deter SMEs from applying. Likewise, the Development Agency of Serbia (RAS) runs a programme to support SME exporters, covering up to 50% of the costs of implementing standards, and the certification or recertification of products.

Montenegro operates a state-funded national programme to enhance regional and local competitiveness through compliance with international business standards. It aims to support SMEs financially, in particular those from less developed municipalities, to comply with international product standards by reimbursing up to 70% of the costs of certification.[8] The programme is expected to continue until 2020.

Turkey's Small and Medium-Sized Industry Development Organization (KOSGEB) supports the implementation of standards and management systems under its General Support programme.[9] The admissible costs also include certification tests, analyses and calibration. In North Macedonia, SMEs can benefit from a voucher scheme operated by the Innovation Fund to support quality infrastructure investments, including implementation of standards and certification.[10]

In Bosnia and Herzegovina, financial support for implementing standards is provided at the entity level. While the Federation of Bosnia and Herzegovina (FBiH) supports the implementation of international quality standards through annual grants, in the RS the focus is on sector-specific funds (e.g. wood processing).[11]

Finally, when it comes to financial support to help SMEs to participate in standards development, the majority of WBT economies allow SMEs to join technical committees at no cost (Albania, North Macedonia, Serbia, Turkey). In Serbia, technical committee meetings are held in different cities to lower SMEs' cost of participation (e.g. travel costs). Turkey is exploring the potential of using digital tools to ease SME participation. Furthermore, the Turkish Ministry of Economy (now the Ministry of Trade) has initiated a support programme for companies entering new markets. If they can provide evidence that participating in standardisation is necessary to enter the new market, SMEs are offered a reimbursement of 50% of their relevant participation expenditure.

The way forward for SME access to standardisation

Despite the existence of some initiatives across the region aiming to increase SME's access to standardisation, governments need to ensure they are better targeted:

- **Disseminate successful case studies that highlight benefits of standardisation in a local context.** In addition to publishing guides on the use of standards, governments should disseminate successful case studies that highlight the advantages of standardisation for improving market results in a local context. The measures introduced by the Dutch standards development organisation are a good example of how to increase SMEs' awareness of standards and their benefits (Box 8.6).

Box 8.6. How the Dutch standards development organisation increases SME access to standards

Perceiving low awareness of standards among SMEs, as well as a lack of participation in standards development, the Dutch standards development organisation (NEN) strives to improve SME access to standards and standardisation through a variety of measures:

- As young businesses are generally not aware of the use and benefits of standards, NEN prepares information material to distribute to start-ups when they register officially.
- Brochures are provided on successful cases of SME participation to motivate their peers.
- A translation initiative was launched to ease SMEs' access to standards.
- The NEN and the Netherlands Electrotechnical Commission have enhanced communication with SMEs by preparing sector-specific electronic newsletters to announce new standards and share information on standards-related events.
- The NEN promotes standardisation by communicating through social media, such as YouTube, Twitter and LinkedIn.

After establishing this programme, the sales of standards translated into local languages tripled. Revenues from the sales of standards more than offset the respective costs. These practices show that national standards bodies can increase awareness of standards and SME participation in their development through simple but well-targeted measures.

Source: de Vries, H. et al. (2009[27]), *SME Access to European Standardization*, www.unms.sk/swift_data/source/dokumenty/technicka_normalizacia/msp/SME-AccessReport.pdf.

- **Allow SMEs to participate in standards development through digital tools or by covering their travelling costs**. SMEs often do not have the time, personnel or financial resources to engage in standards development. National standards bodies should therefore consider the provision of digital platforms, allowing for online participation, feedback and comments to reduce time and travel costs. For example, the German standards development body, Deutsches Institut für Normung (DIN) offers SMEs the opportunity to join the meetings of technical committees via web conference to increase their participation rates (Box 8.7). Additionally, the WBT governments should consider providing funds to cover the travel costs of SMEs attending technical meetings. The Swedish Electrical Commission provides such support and requests the grantees to prepare a report on their participation to be published in its magazine.
- **Scale up financial support programmes to help SMEs implement standards**. Support for implementing standards is currently provided through general programmes for enhancing competitiveness, and the number of SMEs benefitting from the programmes remains low. Therefore, governments should scale up funding and ensure their programmes are better targeted. The authorities should also strive to develop long-term financing schemes based on SMEs' needs when exporting to the EU Single Market, as well as on the evaluation of programmes already conducted.

Box 8.7. Increasing SME access to standardisation in Germany

Germany's national standards body, DIN, together with the Federal Ministry of Economy, has established a SME committee (KOMMIT) comprised of representatives from SMEs, chambers of commerce, business associations and the public sector. Following an analysis of how to maximise the benefits of standardisation for SMEs, KOMMIT has developed the following:

- An SME Help Desk, which serves as a point of contact for SMEs for questions on standards and standardisation. It also assists SMEs in applying standards and consults those that are interested in participating in standards development.
- Web conferencing, to enable SME participation in technical committees by allowing real-time engagement without incurring travel costs. Standardisation meetings are either completely virtual, or else individual members can join through the web-conferencing tool. A dedicated portal allows SMEs to read and comment on draft standards without having to be members of technical committees.
- An online database where SMEs can freely search for standards, technical rules and other documents in DIN's web shop. Summaries and a table of content are provided to help SMEs identify the right standard for their purposes.
- Standard flat rates for SMEs to reduce the financial burden in acquiring standards. SMEs have the option to purchase an unlimited number of standards at a fixed annual flat rate or a package of a fixed number of standards (e.g. 25 or 50) within one year.

KOMMIT is a good example of how a multi-stakeholder working group dedicated to the needs of SMEs can help to analyse and implement measures to increase their participation in the standardisation process.

Source: DIN (2018[30]), *SMEs and Standardization*, www.din.de/en/about-standards/benefits-for-the-private-sector/sme-commission-kommit.

Conclusions

All the WBT governments have taken positive steps to strengthen their quality infrastructure systems further.

Overall, the co-ordination of quality infrastructure policies has improved across most of the economies. However, the quality infrastructure of some economies still does not encompass all the elements needed. Participation in international quality infrastructure structures has increased, bringing quality infrastructure procedures further in line with harmonised principles in the EU and internationally. As a result, SMEs benefit from growing confidence among foreign consumers and authorities in local assessments and certifications.

However, maintaining and expanding the current level of accreditation, conformity assessment and metrology services remains a challenge. Although much focus has been placed on enhancing institutional and human resource capacities, several economies will need to make additional investments. Policy makers are yet to consider taking the first steps towards developing a regional approach for quality infrastructure services based on a cost-benefit analysis of their individual market needs.

Governments have also strengthened the enforcement of technical regulations by increasing inspections, penalties and product recalls. However, implementation of measures to promote compliance remains limited, and in some economies overlapping laws implemented by numerous market surveillance authorities subject SMEs to parallel inspections. SMEs' access to standardisation in the WBT economies also remains inadequate. They are not systematically informed about new standards or involved in their development. Moreover, effective programmes to support SME awareness and participation in the development of standards remain scattered.

The recommendations put forward in this chapter address policy reform priorities for quality infrastructure in the WBT economies. Their implementation will improve the reliability and effectiveness of the quality infrastructure institutions and processes, while also creating better services for SMEs and increase their competitiveness in international markets.

Notes

[1] In Montenegro, it is also due to a steep decline of exports to Montenegro's two main pre-crisis export destinations in the EU. In the course of 2016, Montenegro's exports to Italy fell from EUR 129.4 million to EUR 17.3 million and exports to Greece from EUR 53.2 million to EUR 0.7 million (MONSTAT, 2018).

[2] For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

[3] Endorsement of a European standard can be achieved either by publication of an endorsement sheet or by an announcement in the national standards body's official journal.

[4] The EA Multilateral Agreement (EA MLA) is signed between the EA Full Members; signatories recognise and accept the equivalence of the accreditation systems operated by the signing members, and also the reliability of the conformity assessment results provided by conformity assessment bodies accredited by the signing members. EA MLA scopes include: testing and

medical examination, calibration, products certification, certification of persons, management systems certification, inspection, validation and verification, and proficiency testing providers.

[5] Mandatory provisions represent a departure from the general principle that standards are voluntary in order to ensure that certain public interests such as health, safety, consumers or the environment are effectively protected.

[6] The leaders of Western Balkans Six economies endorsed the Multi-annual Action Plan on Regional Economic Area in the Western Balkans Six (MAP) in 2017. The MAP actions are designed to help the private sector reap the economies of scale of an almost 20-million market, and to refocus the growth model towards more indigenous, long-term driven growth.

[7] See www.cencenelec.eu/standards/Education/Pages/repository.aspx and www.iso.org/sites/materials/teaching-materials/education_materials-higher-edu.html.

[8] While 34 SMEs benefitted from the programme in 2017, the draft action plan to implement the new Strategy for Development of MSMS Enterprises in Montenegro 2018-2022 foresees the number to increase to 100 SMEs, with the overall programme value amounting to EUR 420 000.

[9] In 2017, 1 213 SMEs benefitted from the programme, with a cumulative total of 7 829 since 2010. While reimbursement rates range from 50% to 70% of the incurred cost (depending on the region of SMEs' registration), costs related to conformity assessment are fully reimbursed. The upper support limit of the programme is set at TRY 30 000 (Turkish lira; approximately EUR 5 400).

[10] In 2016, 9 companies used 13 vouchers to implement standards, falling to 6 companies and 11 vouchers in 2017.

[11] In 2017, the FBiH supported 12 SMEs to introduce international quality standards through the annual Strengthening SME Competitiveness grant scheme. In the same year, 11 companies from the RS benefitted from sector-specific grants (e.g. wood processing and textiles) that are provided in co-operation with USAID's Workforce and Higher Access to Markets Activity project.

References

Austrian Standards (2018), *Austrian Standards website*, https://www.austrian-standards.at/. [23]

Austrian Standards (2018), *Living Standards Award 2019*, Austrian Standards website, https://www.austrian-standards.at/en/our-events/living-standards-award-2019/. [28]

Blind, K. and C. Koch (2017), *Introduction to Quality Infrastructure Management, lecture at Technische Universität Berlin*. [1]

Blind, K., A. Mangelsdorf and J. Pohlisch (2018), "The effects of cooperation in accreditation on international trade: Empirical evidence on ISO 9000 certifications", *Journal of Production Economics*, Vol. 198, pp. 50-59, https://doi.org/10.1016/j.ijpe.2018.01.033. [5]

BMZ (2004), *Quality Infrastructure, Conformity Assessment – Metrology, Standardization, Testing, Quality Management (MSTQ): A Reference Framework*, Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung. [22]

de Vries, H. et al. (2009), *SME Access to European Standardization: Enabling Small and Medium-Sized Enterprises to Achieve Greater Benefit from Standards and from Involvement in Standardization*, Rotterdam School of Management, Erasmus University, http://www.unms.sk/swift_data/source/dokumenty/technicka_normalizacia/msp/SME-AccessReport.pdf. [27]

DIN (2018), *SMEs and Standardization*, Deutsches Institut für Normung website, https://www.din.de/en/about-standards/benefits-for-the-private-sector/sme-commission-kommit. [30]

Doner, R. (2016), "The politics of productivity improvement: Quality infrastructure and the middle-income trap", *Thammasat Economic Journal*, Vol. 34/1, http://www.tej.econ.tu.ac.th/TUEconJournal/journal/1.the%20politics%20of%20productivity%20improvement_tej_34-1-59.pdf. [6]

EC (2018), *A Credible Enlargement Perspective for and Enhanced EU Engagement with the Western Balkans*, European Comission, Brussels, https://eeas.europa.eu/regions/western-balkans/39711/credible-enlargement-perspective-and-enhanced-eu-engagement-western-balkans_en. [3]

EC (2018), *European Neighbourhood Policy and Enlargement Negotiations*, https://ec.europa.eu/neighbourhood-enlargement/countries/package_en (accessed on 17 January 2019). [11]

EC (2018), *European Union, Trade in Goods with Western Balkans 6*, European Commission, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111477.pdf. [13]

EC (2016), *Press Release: Commission Proposes to Modernise the Customs Union with Turkey*, European Comission, Brussels, http://europa.eu/rapid/press-release_IP-16-4468_en.htm. [4]

EC (2008), *Think Small First: A Small Business Act for Europe*, Commission of the European Communities, Brussels, http://ec.europa.eu/transparency/regdoc/rep/1/2008/EN/1-2008-394-EN-F1-1.Pdf. [10]

Estonian Centre for Standardisation (2018), *Estonian Centre for Standardisation website*, https://www.evs.ee/. [24]

European Accreditation (2019), *Directory of EA Members and MLA Signatories*, European Accrediation website, https://european-accreditation.org/ea-members/directory-of-ea-members-and-mla-signatories/. [20]

European Accreditation (2018), *European Accreditation website*, http://www.european-accreditation.org/ (accessed on 5 September 2018). [19]

European Commission (2018), *Horizon 2020 data*, http://ec.europa.eu/research/participants/portal/desktop/en/projectresults/index.html. [31]

Eurostat (2018), *Comext database*, Eurostat, https://ec.europa.eu/eurostat/web/international-trade-in-goods/data/focus-on-comext. [14]

Eurostat (2018), *International Trade of EFTA and Enlargement Countries dataset*, Eurostat, https://ec.europa.eu/eurostat/web/products-datasets/-/ext_lt_intercc. [12]

Eurostat (2018), *Western Balkan Countries-EU: International Trade in Goods Statistics*, Eurostat Statistics Explained website, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Western_Balkan_countries-EU_-_international_trade_in_goods_statistics (accessed on 5 September 2018). [15]

Government of Canada (2018), *Meeeting Canada Consumer Product Safety Act Requirements*, Government of Canada website, https://www.canada.ca/en/health-canada/services/consumer-product-safety/legislation-guidelines/acts-regulations/canada-consumer-product-safety-act.html. [26]

Guasch, J. et al. (2007), *Quality Systems and Standards for a Competitive Edge*, World Bank, Washington, DC, http://dx.doi.org/10.1596/978-0-8213-6894-7. [8]

Market Surveillance Agency of Bosnia and Herzegovina (2018), *Publications*, Market Surveillance Agency of Bosnia and Herzegovina website, http://annt.gov.ba/Za_poslovne_subjekte/publikacije/Archive.aspx?langTag=en-US&template_id=172&pageIndex=1. [21]

Ministry of Economy (2018), *Sector for Quality and Product Safety website*, Ministry of Economy, Republic of Serbia, http://www.tehnis.privreda.gov.rs/. [16]

Polish Committee for Standardization (2018), *Polish Committee for Standardization website*, https://www.pkn.pl/. [25]

Sanfey, P. and J. Milatovic (2018), *The Western Balkans in Transition: Diagnosing the Constraints on the Path to a Sustainable Market Economy*, European Bank for Reconstruction and Development. [2]

Swann, G. (2010), "International standards and trade: A review of the empirical literature", *OECD Trade Policy Papers*, No. 97, OECD Publishing, Paris, http://dx.doi.org/10.1787/5kmdbg9xktwg-en. [7]

TSE (2018), *Turkish Standards Institution website*, Turkish Standards Institution, https://en.tse.org.tr/. [18]

UNIDO (2017), *UNIDO Partners with Technical Institutions on Quality Infrastructure to Achieve Sustainable Development Goals (SDGs)*, United Nations Industrial Development Organization, https://www.unido.org/news/unido-partners-technical-institutions-quality-infrastructure-achieve-sustainable-development-goals-sdgs. [9]

Wakke, P., K. Blind and F. Ramel (2016), "The impact of participation within formal standardization on firm performance", *Journal of Productivity Analysis*, Vol. 45/3, pp. 317-330, http://dx.doi.org/10.1007/s11123-016-0465-3. [29]

Wilfried, H. and H. de Vries (2011), *White Paper: Academic Standardisation Education in Europe*, European Academy for Standardization, http://www.euras.org. [17]

Further reading

Abdelkafi, N. et al. (2016), "To standardise or to patent? Development of a decision making tool and recommendations for young companies", *International Journal of Innovation Management*, Vol. 20/08, https://doi.org/10.1142/S136391961640020X.

Blind, K. and S. Drechsler (2017), *European Market Needs for Education in Standardisation/Standardisation-Related Competence*, Publications Office of the European Union, https://doi.org/10.2873/540387.

Blind, K. and A. Mangelsdorf (2013), "Alliance formation of SMEs: Empirical evidence from standardization committees", *IEEE Transactions on Engineering Management*, Vol. 60/1, pp. 148-156, https://doi.org/10.1109/TEM.2012.2192935.

Blind, K. et al. (2018), "Standards in the global value chains of the European Single Market", *Review of International Political Economy*, Vol. 25/1, pp. 28-48, https://doi.org/10.1080/09692290.2017.1402804.

Directorate for European Integration (2018), *Answers to the Questionnaire,* Directorate for European Integration, Bosnia and Herzegovina, http://dei.gov.ba/dei/direkcija/sektor_strategija/Upitnik/odgovoriupitnik/Archive.aspx?langTag=en-US&template_id=120&pageIndex=1.

EC (2017), *Good Practice for Market Surveillance*, European Commission, Brussels, http://ec.europa.eu/DocsRoom/documents/23041.

Harmes-Liedtke, U. (2010), "The relevance of quality infrastructure to promote innovation systems in developing countries", *Discussion Paper*, No. 3/2010, Physikalisch-Technische Bundesanstalt, Braunschweig, Germany, www.ptb.de/cms/fileadmin/internet/fachabteilungen/abteilung_9/9.3_internationale_zusammenarbeit/publikationen/303_Discussion_3_Innovation/PTB_Q5_Discussion3_Innovation_EN.pdf.

PROSAFE (2010), *Best Practice Techniques in Market Surveillance*, Product Safety Forum of Europe, Brussels, www.prosafe.org/index.php/best-practice/item/best-practices-techniques-in-market-surveillance.

UNIDO (2016), *Guide for the Development of National Quality Policies*, United Nations Industrial Development Organization, Vienna.

World Bank (2017), "Faster growth, more jobs" *Western Balkans Regular Economic Report*, No. 11, World Bank, Washington, DC, http://pubdocs.worldbank.org/en/310431491458109659/WBRER-11-v6.pdf.

World Bank (2017*), The Western Balkans: Revving Up the Engines of Growth and Prosperity*, World Bank, Washington, DC, www.worldbank.org/en/region/eca/publication/revving-up-engines-of-growth-and-prosperity-in-western-balkans.

Chapter 9. Enterprise skills (Dimension 8a) in the Western Balkans and Turkey

This chapter assesses policies in the Western Balkans and Turkey to promote the skills SMEs need, from starting up and throughout their growth phases. It starts by providing an overview of the assessment framework and progress since the last assessment in 2016. It then presents an analysis of Dimension 8a's three thematic blocks: 1) planning and design, which assesses policies in the areas of skills intelligence; 2) implementation, which focuses on training for start-ups, responding to the skills required of digital and green economies, and smart specialisation; and 3) monitoring and evaluation, which considers whether economies ensure their SME skills policies are working and keeping up with market needs. The chapter concludes with key recommendations to help the region's policy makers to tackle the challenges identified and provide their SMEs with the skilled human capital they need.

Key findings

- **The Western Balkan economies and Turkey (WBT) have made some progress in improving the governance of enterprise skills**. Most of the economies have taken steps to collect information on skills needs although institutional capacity needs to be strengthened for well co-ordinated data collection and its use to inform SME skills policy and programming.
- **The statistical basis needed to analyse companies' skills needs have improved over the assessment period.** In spite of these improvements, however, the monitoring results of SME support programmes are not always made available to enable decision makers to identify successful or less relevant support measures and programmes.
- **Most of the WBT economies recognise the importance of digital skills for SMEs and the link with internationalisation,** but this recognition has not been systematically translated into providing the conditions or the training required to steer SMEs towards the digital economy.
- **Training provision is not always tailored to the specific needs of start-ups at different stages of growth.** Provision needs to distinguish between those who need help with their business idea, the early-phase start-ups and those that need a push to scale up their business.
- **Online platforms are needed to provide an overview of the training on offer to SMEs.** The WBT economies do not use SME skills intelligence to map the training available and to provide a single searchable online platform to enable SMEs to find the training that meets their specific needs in timing, content and delivery method.
- **E-training for SMEs is not widely available across the region.** There is a need to scale up publicly funded e-training to make training more accessible to SME managers and their employees as it does not require them to take time away from work which could disrupt business and add to the actual cost of training.
- **Smart specialisation will have implications for SME skills which will need to be assessed and addressed.** The economies have recognised the importance of skills for innovation and will need to lead in defining an approach to smart specialisation in which the territorial concentration of SME skills, knowledge and competences are transformed into a competitive advantage.

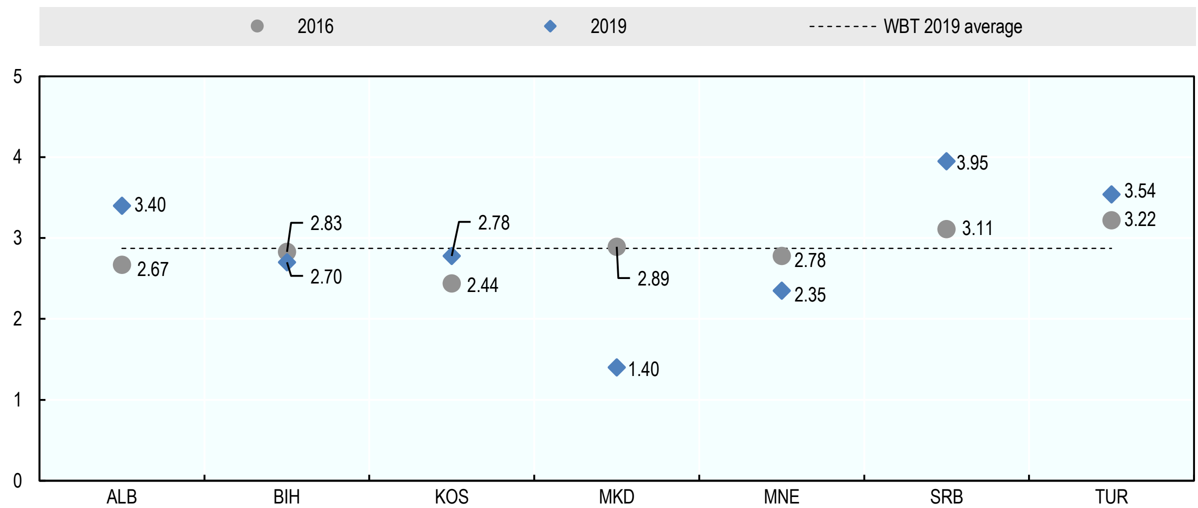
Comparison with the 2016 assessment scores

Overall the average score for the economies in the enterprise skills dimension demonstrates modest progress since 2016. Looking at the specific scores for each economy (Figure 9.1), Albania and Serbia have made a significant leap forward, with Bosnia and Herzegovina, Kosovo,[*] Montenegro and Turkey making more modest progress. The Republic of North Macedonia has a lower score than in 2016 due to a

[*] This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

change of government – the relevant institutional arrangements and mechanisms for supporting enterprise skills are still to be reactivated.

Figure 9.1. Overall scores for Dimension 8a (2016 and 2019)



Note: The comparison of scores between the 2016 and 2019 assessments should be interpreted with caution because of the change in assessment methodology and the introduction of new questions. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

Table 9.1 summarises to what extent the WBT economies have implemented the recommendations of the 2016 SME Policy Index.

Table 9.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 8a

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Identify a co-ordinating body for skills intelligence	- Little progress has been made in developing institutional co-ordination for monitoring data on SME skill needs. - Albania, Bosnia and Herzegovina, Montenegro and North Macedonia still have no formal institutional co-ordination mechanisms. - Only Turkey has established a new institution in the area of skills intelligence, specifically a department under the Department of Science, Technology and Industry Education of the Ministry of Industry and Technology.	Moderate
Monitor and evaluate training at both project and system level	- All the economies require government co-financed training for SMEs to be monitored at least at the level of spending, disbursement and number of beneficiaries. - Monitoring – and especially evaluation – has not seen a lot of progress except in one economy – Kosovo. Also, North Macedonia is in the process of establishing or strengthening co-ordination mechanisms between the public and private sectors and civil society, which will lay the foundation for strengthened monitoring and evaluation in the future.	Limited

(Co-)develop e-training services with training providers and academia	- E-training for SMEs is not widely available across the region. Only Serbia, Turkey and Kosovo provide publicly funded e-training. - Turkey continues to stand out for its e-training provision to SMEs through its SME Development and Support Organisation's (KOSGEB) online training platform, where 35 online training programmes in 6 categories are available free of charge to registered SMEs.	Limited

Introduction

Small and medium-sized enterprises (SMEs) make up the lion's share of businesses in the Western Balkans and Turkey (WBT). The ability of SMEs to add value, create employment and spearhead innovation depends on skilled human capital. Skills policies that target SMEs are important for economic growth, and investment in human capital is a key resource for competitiveness (EC, 2010[1]; EC, 2016[2]).

Enterprise skills are important for improving the performance of the business sector. Employers generally lack sufficient high-quality skills, particularly for growing enterprises and export-oriented companies (Gribben and Lasku, 2013[3]). For example, the most recent European Company survey (Eurofound, 2013[4]), in 2013, found that four in ten European Union (EU) employers, the vast majority of them SMEs, reported difficulties finding the right skills when recruiting. This is a result of the weak response of the education and training community to the interests and needs of SMEs.

Many changes are being driven by digital and other new technologies, and by new business models. The skills forecasting model of the European Centre for the Development of Vocational Training (Cedefop) predicts that in the future about 85% of all EU jobs will need at least a basic level of digital skills (Cedefop, 2019[5]). Technological evolution entails changes in occupations as old skills become obsolete or automated while new skills are needed. The WBT economies will need to modernise by investing in the workforce through high-quality training to ensure that they stay competitive in global markets. Having access to the right high-quality skills – at the right place and the right time – will be essential for SME competitiveness, whether starting out or scaling up. Workforce skills alone cannot reduce the skills mismatch and boost competitiveness, however. The managers of SMEs themselves, in particular the smaller companies and start-ups, could also be greatly helped by improving their skills.

Effective policy making for business development requires systematic intelligence about the SME workforce to allow governments and the private sector to establish the necessary policies, support structures and training measures. Poor skills intelligence on the other hand leads to mismatches between the supply and demand of skills (Gribben and Lasku, 2013[3]).

Addressing skills mismatches cannot rely solely on more and better systems and tools to forecast skills needs, however. Improving policy co-ordination and synergies, particularly among the government bodies responsible for education, training and the economy, will be important (Gribben and Lasku, 2013[3]). A variety of actors will need to collaborate to ensure that education and training provision matches the skills needs of SMEs.

Continued improvement of the skills of both managers and staff will be necessary to sustain jobs and to grow businesses. SMEs need to be able to access skilled staff as well as on-the-job-training so that they can update the skills of their existing employees, including managers, and make effective use of their full potential.

The Small Business Act for Europe (SBA) assessment analyses the progress economies have made and makes recommendations on areas of further improvement. This chapter examines the policy context supporting enterprise skills and reflects on the progress made since the previous assessment in 2016. SMEs, particularly micro and small companies, tend to carry out less internal training and rely more on the external market than larger employers, which can be problematic if the skills they need are not available or if the training to create those skills – and information about the training on offer – is not readily available. The chapter concludes with key recommendations to move forward in these areas.

Assessment framework

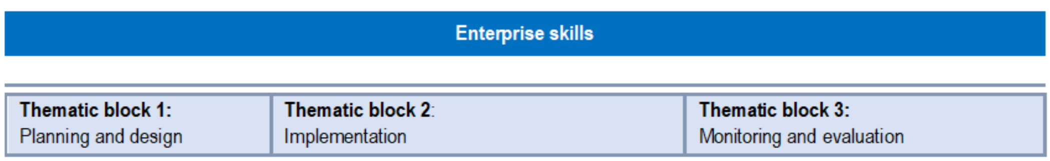
Structure

The assessment framework for enterprise skills is divided into three thematic blocks (Figure 9.2): planning and design (30% of the total score), implementation (50% of the total score) and monitoring and evaluation (20% of the total score).

The first thematic block considers whether there is a skills intelligence framework within the overall national policy design and planning, and what methods are in place to analyse the skills needs of SMEs. Within the implementation thematic block, the assessment mainly covers the training on offer to SMEs. Finally, the third block of the assessment examines the monitoring and evaluation arrangements for SME training and policy frameworks.

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

Figure 9.2. Assessment framework for Dimension 8a: Enterprise skills



Key methodological changes to the assessment framework

The assessment framework for Dimension 8a, enterprise skills, has changed substantially since the 2016 assessment with the adoption of a questionnaire. This has brought it into line with the wider SBA assessment methodology introduced in the 2016 assessment for the other dimensions. A group of experts from the seven economies contributed to the revision process and agreed which areas the assessment should focus on. The former five-step level indicators (SME skills intelligence, training for start-ups, training for enterprise growth, e-training and training for internationalisation) have been integrated into the questionnaire, while the quality assurance indicator has been dropped from this assessment.

The current assessment focuses more heavily on SME skills intelligence and how it is used for policy design and the development of new training programmes. The assessment of the training offer includes new categories, including start-up training as well as training for SMEs with growth potential and training on green and digital skills. In line with the EU accession requirements, the assessment also considers to what extent training for SMEs is part of the Economic Reform Programme (ERP).[1] The assessment also includes a new question on the adoption of the smart specialisation[2] approach, with the aim of increasing the importance of skills and human capital development in the innovation policy dialogue.

Analysis

The private sector is the main contributor to economic output in all the economies in the Western Balkans and Turkey. The fundamental problem holding back the region's economic development is low productivity. SMEs dominate the private sector and account for about two-thirds of value added on average. They also provide a large share of employment, ranging from just below 70% in Bosnia and Herzegovina and 73.5% in Turkey, to more than 80% in Albania (Sanfey and Milatovic, 2018[6]). SMEs are therefore essential for creating jobs and boosting productivity, growth and competitiveness. Education and training, especially when effectively tailored to the specific needs of entrepreneurs and their staff, will be key to honing the competitive edge of SMEs.

Although SMEs are generally less innovative than large enterprises, some are highly innovative with productivity levels above those of large companies (OECD/LEED, 2018[7]). Many new business ideas are emerging in the digital and green economies. When appropriately used, education and training can fuel SME innovation in these domains. Due to their small size, SMEs find it difficult to meet their education and training needs and invest significantly less in skills development than their larger counterparts. Therefore, they depend on the labour market to supply them with qualified labour. SMEs' inability to invest in skills, combined with labour market mismatches, erodes their innovation potential across sectors, all of which require different sets of skills and ways of education and training. Companies which develop and use their internal strategic resources effectively – such as managerial and workforce skills, information and communications technology (ICT), research and development – and collaborate with external partners in the innovation system, have better innovation performance (OECD/LEED, 2018[7]).

For the purposes of this assessment, enterprise skills comprise business skills (e.g. marketing and finance), entrepreneurship as a key competence (e.g. creativity, innovation and risk management) and vocational skills (i.e. professional skills for specific sectors). All three areas are necessary to deliver companies' business plans and for companies to operate effectively in increasingly open economies. A company's demand for skills will change as it moves from start-up to growth phases and will also constantly evolve in response to external factors such as technological change. More ambitious businesses operating in international markets require specific knowledge and skills to meet international trading standards for their respective sectors (Gribben and Lasku, 2013[3]).

Overall, Serbia performs best in this dimension, thanks to scores that are well above average in all three thematic blocks (Table 9.2). This reflects the substantial resources the Serbian government is investing in SME support, including training services dedicated to specific target groups of SMEs and supporting different phases of enterprise development. Albania also scores above average in all three thematic blocks, while North Macedonia scores lowest across the board – most of the initiatives that would increase its score are in the pipeline but not yet in place.

Table 9.2. Scores for Dimension 8a: Enterprise skills

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.50	3.50	4.17	1.50	3.17	4.50	3.33	3.38
Implementation	3.50	2.50	2.25	1.50	2.00	4.00	4.06	2.83
Monitoring and evaluation	3.00	2.00	2.00	1.00	2.00	3.00	3.00	2.29
Weighted average	**3.40**	**2.70**	**2.78**	**1.40**	**2.35**	**3.95**	**3.54**	**2.87**

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

Planning and design (Thematic block 1)

Better skills intelligence is being gathered, but does not always translate into policy design

Integrated skills intelligence is one of the three pillars of the New Skills Agenda for Europe, but has long been a challenge for the economies of the Western Balkans and Turkey (EC, 2016[2]). It is generally acknowledged that better and more timely information on current and future education and training needs can help make vocational education and training policies more responsive. However, the way skills are traditionally measured is often either too specific or too aggregated, or the data are not used to inform relevant policies. Another challenge is ensuring that a broad array of potential beneficiaries have access to and use skills intelligence, and that it meets the needs of diverse audiences. In many economies the effective transmission of skills intelligence is the weak link in their skills governance systems, diminishing the returns to investment in the state-of-the-art skills anticipation and forecasting projects being implemented. Common weaknesses in integrated skills intelligence systems include a lack of appropriate data sources for decision making and policy evaluation, information asymmetries (unequal access to information), fragmentation between different layers of government, and capacity constraints (both human and financial). However, difficulties in relaying information can also reflect the limited relevance of conventional skills-forecasting methods and instruments for policy design and implementation (OECD, 2016[8]).

Most of the WBT economies have taken steps towards a more systematic approach to analysing SME training needs and translating them into concrete training provision. Perhaps the biggest leap forward has been made by Turkey, which has established a new department under the Ministry of Industry and Technology (Directorate General for Research and Development Incentives) to identify and implement training provision. SME employees are eligible for financial support from KOSGEB to cover 50-70% of the cost of the training. With the support of KOSGEB, the ministry also chairs the Entrepreneurship Council which is responsible for the system-level co-ordination of government SME skills policies and their implementation. A dedicated Directorate General is responsible for digital transformation in industry, focusing on programmes to enhance SMEs’ digital skills.

In Bosnia and Herzegovina and North Macedonia, the systems for collecting data on labour demand and forecasting future skills needs are still at an early stage of development, constraining policy making. In Bosnia and Herzegovina, the Republika Srpska Chamber of Commerce continuously tracks SME manpower developments[3].

Based on this analysis, the Republic Agency for SME Development has created 10 training programmes specifically for the metal sector, which are now being provided by the Faculty of Mechanical Engineering in the University of Banja Luka. North Macedonia has recently established its Skills Observatory as a department within the Ministry of Education and Science, as well as a project to establish a web platform with information on actual higher education careers, vocational education and training (VET) and adult education programmes, job placements for graduates, etc. However, the practical use of this platform is held back by a lack of data harmonisation, limited capacity to support the development of evidence-based policy making and a reluctance by institutions to share information.

In Albania the National Employment Service implements a wider employers' survey (not solely focused on SMEs) which is carried out biennially, if donor funding is available. In Montenegro multiple organisations – including the Chamber of Commerce, the Employers' Federation, and the Employment Agency – conduct SME training needs analyses for internal purposes, but no meta-analysis has been conducted and the results from the different analyses have not been pooled into a single summary. There is no cross-institutional collaboration to identify emerging skills mismatches or tackle the causes and effects of skills imbalances (ETF, forthcoming[9]). Similar situations were found in Albania, Bosnia and Herzegovina, and North Macedonia, where the results from existing skills intelligence are not systematically used to inform public policy and funding. In Albania and North Macedonia this is due to government restructuring and the challenge of re-establishing formal mechanisms for institutional collaboration.

So far only Serbia and Kosovo have created systems to anticipate skills needs so that the education system can meet the needs of SMEs in the labour market. Both economies also use skills intelligence to inform policy and programming and their respective Economic Reform Programmes.

Across the Western Balkans and Turkey there is an understanding that maximising SMEs' potential to drive growth and create jobs requires consistent, reliable and up-to-date intelligence on skills requirements and gaps. Volume considerations (i.e. the total number of staff required) from employers and industry are simply not enough. The challenge is to map all data sources, combine data, and manage multiple sources to develop the evidence base for smart specialisation.

Implementation (Thematic block 2)

Start-ups have access to more training, but it is not always tailored to their needs

Start-ups in the EU have a low survival rate: typically less than half of all enterprises started in 2010 were still active in 2015. Survival rates among the WBT economies compare well with the EU: the survival rate in North Macedonia is slightly higher than the EU average (52.6% in 2014), while those for Kosovo (63.4% in 2014) and Turkey (66.6% in 2015), place them near the top performers in the EU (Eurostat, 2018[10]). Supporting start-ups on their entrepreneurial journey is essential to increasing their long-term viability. Start-up training makes entrepreneurs better prepared and gives them more confidence to succeed and to grow their business. Growing businesses are more likely to create jobs (Van den Eynde, forthcoming[11]).

All the economies in the WBT have started to invest more in financial and non-financial support for start-ups. A number of economies have created specific funds to support them financially. For example, both the Start-Up Fund managed by the Albanian Investment

Development Agency (AIDA) and Kosovo's new Fund for Innovation and Technology Development recently organised open calls to fund a selected number of start-ups in the ICT and technology sector. However, most of the economies need to make more effort to make training provision (including mentoring and coaching) a precondition for receiving grants or loans. This is already the case in Montenegro, where the Employment Agency trains the unemployed in self-employment skills, and potential entrepreneurs in basic entrepreneurship skills. Entrepreneurs must participate in the training in order to qualify for credit support.

Government-financed training programmes for start-ups exist in almost all economies, except Kosovo and North Macedonia, where non-financial support is mainly donor driven. To improve the efficiency and effectiveness of public and private training provision, start-up training should be targeted more closely at the specific needs of entrepreneurs, and where they are on their entrepreneurial journey. Policy makers in all the economies should pay attention to the different categories of entrepreneurs when allocating resources: from the "wannabe" entrepreneurs who need help with their business idea, to the early-phase start-ups that need support to make their business sustainable, and the "up-starts" that need a push to scale up their business (Van den Eynde, forthcoming[11]).

While it will be important for economies to address all these categories in their training programmes for start-ups, policy makers might also decide to prioritise "scale-ups" – young but established companies that want to grow into thriving medium-sized enterprises – since they have the greatest impact on the growth of the economy. A next step would then be to start paying attention to the training offered to "restarts", those whose businesses have failed but who want to start again (for more information, see Chapter 2 on bankruptcy and second chance for SMEs). They need specific support linked to the social and psychological effects of business failure.

Most economies (with the exception of Montenegro and North Macedonia) have specific training programmes targeted at young entrepreneurs (under 30). In Serbia, the Youth Caravan project financed by the Serbian Development Agency gives young people legal advice and support to develop a business plan. In Turkey, youth start-ups can benefit from the Individual Young Entrepreneurs Support organised by the Scientific and Technological Research Council of Turkey (TÜBİTAK). Targeted training for women entrepreneurs is available in North Macedonia, Serbia and Turkey, while Kosovo has a quota for women in every call for start-up training. None of the economies so far offer specific training for older entrepreneurs (aged over 50).

The emerging digital and green economies are opportunities for SMEs

The digital economy refers to all the economic activities enabled by ICT through the use of the Internet, mobile technology, big data and the Internet of Things. Across the WBT economies, digitalisation – transforming business processes or activities by leveraging digital technologies – is acknowledged to be one of the main drivers of change, disrupting traditional industries and labour markets and acting as a source of new opportunities for SMEs. Digitalisation is driving the emergence of new business models which may enable firms to scale up very quickly, often with few employees, tangible assets or geographical market presence (OECD, 2017[12]). The adoption and effective use of ICT hardware and software are forms of business innovation in themselves, but are also a prerequisite for and further driver of other forms of business innovation (OECD/LEED, 2018[7]).

Turkey has established a new department within the Ministry of Industry and Technology that is responsible for digital transformation in industry. The Department of the 4th Industrial Revolution under the Directorate General for R&D Incentives works specifically on enhancing SMEs' digital skills. The ministry has prepared a digital transformation roadmap for Turkey's manufacturing industry which focuses on strengthening the education infrastructure and workforce training, and supporting the digital transformation of SMEs, among other things. Kosovo has made good progress in supporting SMEs in the digital economy. Its Economic Reform Programme reflects the importance of SMEs in the digital economy and the Ministry of Economic Development is looking to implement a project to broaden access to and use of ICT. Kosovo has made a wide range of training on digital skills available to SMEs, including online training, the costs of which are partly covered by the Ministry of Innovation and Entrepreneurship.

North Macedonia has not yet recognised the role of SMEs in the digital economy at policy level, but its new National Council for ICT, established in February 2018 and tasked with developing a National ICT Strategy, offers an opportunity to do so and to promote digital skills and use of ICT by SMEs as a critical factor for success in innovation, competitiveness and growth.

Serbia is the only economy which provides training to support SMEs operating within the EU Digital Single Market. Serbia's other support measures for SMEs in the digital economy included a call in 2017 for participation in Create Life, a support programme for innovative micro, small and medium-sized enterprises (MSMEs) and entrepreneurs. The Create Life programme's objective was to strengthen the innovation capacity of MSMEs in order to increase their competitiveness. It was implemented by the Development Agency of Serbia in partnership with regional development agencies and provided support for businesses to improve existing technological processes and products and develop new ones, and to purchase national and small patent rights and patent documentation.

The green economy refers to sustainable economic activities that aim to reduce environmental risks and generate sustainable job opportunities. "Growth potential" SMEs are likely to take up opportunities in new domains such as the green economy (OECD, 2013[13]) (for more information, see Chapter 11 on SMEs in a green economy). However, only two economies, Montenegro and Turkey, currently have national policies that recognise green skills. In Turkey, the United Nations Industrial Development Organization (UNIDO), in partnership with the Global Environment Facility, is promoting affordable and scalable solutions to move to cleaner, more resilient economies through the Global Cleantech Innovation Programme. Implemented in collaboration with the Ministry of Industry and Technology and co-ordinated by TÜBİTAK, the programme provides training to SMEs and start-ups on renewable energy, energy efficiency, energy production from waste, water efficiency and green buildings. A key component of the programme is the annual competition-based accelerator, which identifies the most promising innovators and entrepreneurs across the country (UNIDO/GEF, 2017[14]).

Smart specialisation strategies will highlight the need to improve workforce and SME skills

Smart specialisation is part of the EU's cohesion policy and aims to boost growth and jobs by enabling regions to identify and develop their areas of competitive advantage. It is a strategic way to create productive collaboration between actors with the aim of stimulating innovation-driven growth. It requires all actors to work together across all levels. Skills contribute to smart specialisation more widely than just through knowledge production. Human capital, knowledge dissemination and transfer, and support for entrepreneurship are all key elements of smart specialisation.

Since 2014, smart specialisation strategies have been a condition for regions in EU Member States to qualify for funding from the European Regional Development Fund. To date, EU Member States and regions have developed over 120 smart specialisation strategies. All the WBT economies are working with the European Commission (EC) to implement smart specialisation, starting with familiarising themselves with the approach. Turkey is the most advanced in implementing smart specialisation, with Montenegro and Serbia not far behind.

Montenegro, Serbia and Turkey are the first economies to begin to implement smart specialisation in the region. Turkey is the only economy which has adopted a subnational (regional) approach to smart specialisation, with all the others taking a national approach. In Turkey the specialisation framework has been adapted into "results oriented programmes" which all regions must develop from 2019 onwards. In February 2017, Serbia opened Chapter 20 of its negotiation of the EU *acquis* (on enterprise and industrial policy). In April 2018, the EC recommended Serbia should develop a comprehensive industrial policy based on EU principles and using the findings of the smart specialisation analysis. Serbia has also started developing a new sector-based industrial strategy; it should step up this work by enhancing its administrative capacity and taking into account the findings of its smart specialisation analysis (EC, 2018[15]). The EC also recommended in April 2018 that Montenegro include smart specialisation under Chapter 25 of its negotiation (on science and research) and develop a smart specialisation strategy. Montenegro is currently preparing the strategy with the EC's support, and has established an inter-ministerial working group for this purpose, including business, academia and non-government organisations. At this stage, the main sector priorities are sustainable agriculture and energy, ICT, manufacturing, and health and wellbeing; tourism is a cross-cutting priority (EC, 2018[16]).

Albania, Bosnia and Herzegovina, Kosovo, and North Macedonia began implementing smart specialisation in 2018. In Albania, Kosovo and North Macedonia, smart specialisation also falls under Chapter 25. The EC recommended Kosovo should increase government spending on research and seek to stimulate investment from the private sector by using the findings of a smart specialisation strategy currently being developed. In North Macedonia, preparations have only just begun for a smart specialisation strategy and sector-specific scientific priorities. The recommendation is to develop a smart specialisation strategy to underpin national research and innovation strategies and policies. In Albania, the process of drafting a smart specialisation strategy has started under the lead of the Ministry of Education, Sports and Youth and the first analysis is expected to be completed by the end of 2018.

Although vocational education and training has an important role to play in innovation and smart specialisation,[4] most EU Member States currently focus on higher education and only a handful include VET and skills in their innovation clusters and strategies. In implementing smart specialisation, the WBT economies are also focused on higher education rather than education and training provision more broadly. This approach does not reflect the renewed focus on the importance of skills and human capital in smart specialisation, nor the push by the EC to link VET to innovation systems and to include skills intelligence and skills matching, in line with the New Skills Agenda. Smart specialisation needs to be accompanied by improved workforce and SME skills as labour market requirements change, and the use of new technologies increases. Omitting skills from the smart specialisation analysis (assets, capabilities and bottlenecks) risks creating skills mismatches, reducing the competitiveness of SMEs and hindering economic growth.

As the WBT economies press ahead with implementing smart specialisation, this will create an opportunity to develop a shared vision across policy areas (such as economic, industrial and digital education policies). The challenge of skills will be brought to the forefront in Montenegro and Serbia first, as they implement the Entrepreneurial Discovery Phase of smart specialisation in the second half of 2018. This phase requires the strong engagement of companies and industry and is known to highlight skills, such as workers' expertise and the ability of workers to adapt to new working practices and advanced product design.

Monitoring and evaluation (Thematic block 3)

Monitoring and evaluation are too fragmented to inform policy design

Monitoring and evaluation of SME skills policies are separate but complementary practices to collect and process information about the how far policy measures have been implemented and whether they have achieved the expected results. Monitoring captures data on progress made against set targets and evaluation uses the monitoring data to understand whether the policies have had the desired effect. Both are critical in building a strong evidence base for understanding SME skills needs and for assessing the diverse range of interventions being implemented to address them. Monitoring and evaluation are critical to developing objective conclusions about policies' results and impact – and key to identifying the most valuable and efficient use of resources. Together, they provide the necessary data to guide strategic planning, design and implement projects and policies, and allocate and reallocate resources in better ways.

In all the WBT economies, both policy makers and the training community demonstrate growing awareness of the value of monitoring and evaluating SME skills policies. There is also a general recognition of the need to strengthen overall collaboration among stakeholders for more effective cross-institutional sharing of data and knowledge as a prerequisite for effective monitoring and evaluation. However, in most of the economies (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, and North Macedonia) the data produced and collected are of limited value as monitoring continues to be confined to project or ministry level and not shared with stakeholders. In Albania the government monitors the Competitiveness Fund which requires beneficiary SMEs to demonstrate the impact of the project funded within two years of its completion. In 2017, an independent evaluation of all AIDA support funds was carried out which provided overall recommendations and specific recommendations for all funds. In North Macedonia, the Ministry of Economy plans to establish an integrated performance management system, in line with the recommendation of the State Audit Office for improving the quality and quantity of SME data, although any results have not yet been made public. In general, all of these economies struggle with using and interpreting the data they have for policy development, and lack system-level monitoring and particularly evaluation capacity.

Serbia and Turkey have the most developed monitoring of SME skills policy implementation in the region – Serbia through the Development Agency of Serbia and Accredited Regional Development Agencies, and Turkey through KOSGEB and TÜBİTAK. The Development Agency of Serbia conducts an evaluation of training needs which is used to improve training delivery and introduce new training (e.g. e-business training). The Ministry of Economy, in co-operation with other institutions, prepares annual reports on SME support and reports on the implementation of the SME strategy. Despite this progress, monitoring and data collection in Serbia are divided across different public agencies, with no official co-ordination structure to oversee, monitor and evaluate all SME skills' development programmes and measures.

Turkey is the only economy in the region with a dedicated body for monitoring and evaluating SME skills. KOSGEB has responsibility for system-level monitoring and collects information to assess progress towards the achievement of the policy objectives, outcomes and impacts of the Entrepreneurship Strategy and Action Plan. Each year KOSGEB delivers a consolidated progress report to the Entrepreneurship Council. However, while the monitoring data are published in the Annual Activity Reports, access to evaluation results remains limited; they are available under the overall framework of the Entrepreneurship Strategy and Action Plan, and through a number of programme-based reports such as the European Bank for Reconstruction and Development's Finance and Advice for Women in Business Programme (EBRD, 2019[17]).

The way forward for enterprise skills

In moving forward, the economies of the Western Balkans and Turkey should consider the following recommendations:

- **Designate a body to strengthen SME skills intelligence.** The recommendation from the last SBA assessment to strengthen skills governance systems still stands. Regular and reliable data on SME skills are vital if policy makers are to align their economy's human capital base with its economic structure – and will be particularly critical in moving forward with smart specialisation. A designated body responsible for generating better and more timely information on SMEs' current and future training needs would close information gaps and help ensure policies respond to these needs. This body's role would be to fill the transmission gap and ensure all actors have access to appropriate information that meets their needs. It would also monitor the implementation and results of policy measures. For such a co-ordination body to function efficiently, it needs appropriate funding and human capacity. Its key partners would include the ministries of economy, education and labour, statistical offices, employment services, SME agencies, regional development organisations, chambers of commerce, innovation agencies and education and training providers.
- **Build SME skills into smart specialisation strategies**. As the economies move forward with smart specialisation, they will need to develop a vision for skills. The development of smart specialisation niches will start to affect demand for labour. It will become increasingly important for workers to have the right expertise and be able to adapt to new working practices and advanced product design. This will apply to businesses throughout the supply chains. The economies will need to adapt their education and training policies and investments accordingly. Addressing the skills needs of SMEs will mean increasing flexibility in education and training provision, raising questions about skills governance and the way economies collaborate across and between administrative levels. VET providers will need to be engaged in the dialogue if they are to translate changes in business sectors into education and training provision that meets SMEs' labour force and lifelong learning needs.

- **Refine and better target the training offer.** Economies like Turkey, where SME skills intelligence is already well developed, could make more effort to analyse the current supply of training by type of demand and consolidate the training offer by linking different suppliers and programmes. For example, in the area of SME internationalisation, there is an opportunity to make existing programmes more comprehensive (see Box 9.1), and the supply of programmes more effective and efficient, by improving co-ordination among providers and support opportunities (see Box 9.2).
- **Make training offer relevant for local growth and competitiveness.** Decentralising the implementation of training policies would make it easier to tailor them to local needs. Micro enterprises in particular are heavily dependent on their regional environment, where proximity plays a key role in innovation, particularly the spread of tacit knowledge. SMEs need policy support to enable them tap into outside resources, principally access to knowledge in the form of advice through innovation support services and tailored counselling, technology or qualified human capital, to face up to the new forms of competition that are developing in the global economy (EC, 2012[18]). VET providers could take on additional roles such as supporting start-ups and SMEs, providing innovation services, contributing to regional development by aligning regional and national priorities.

Box 9.1. Turkey's Ex Point Programme: helping SMEs internationalise through training

In 2009, the Ministry of Trade and the Turkish Exporters Assembly drew up the 2023 Turkish Exports Strategy. Its objective was to increase exports by 12% annually with the wider goal of ensuring Turkey becomes one of the world's 10 largest economies by 2023, accounting for 1.5% of global trade. The core features of the strategy include shifting production from low-tech sectors to high value-added areas and achieving new investments in high-tech sectors. This has significant implications for SMEs.

In order to reach its goals, the Ministry of Trade relies on evidence-based policy making, based on provider-driven training needs analyses which are collected, analysed and disseminated upwards through the chain of governance to inform policy makers about SME skills needs.

The Ex Point Programme by Zobu Consulting is a 6-12 month mentoring programme, supported by the Ministry of Trade, that directly contributes to the success of Turkey's export strategy by aiming to increase both the number of exporting SMEs and the volume of exports by SMEs. The training programme provides mentoring support to companies with an interest in extending into international markets in key sectors such as automotive, maritime, plastics, heating, ventilation and air-conditioning. It also helps existing exporters to improve their performance. To date, the training programme has engaged with 74 SMEs with a total of 90 staff; established 13 000 contacts with potential buyers, resulting in 400 international orders; and helped 14 SMEs start exporting and 25 SMEs improve their export activities.

The Ministry of Trade continuously engages with training providers, allowing policy makers to close the policy loop and learn where their investments have the desired impact, so they can focus public effort where it adds most value.

Source: ETF (2018[19]), *Turkey: Helping SMEs Internationalise Through Training*, www.etf.europa.eu/en/news-and-events/news/turkey-helping-smes-internationalise-through-training

Box 9.2. Building the international capacity of growth-oriented SMEs

The Middle and 1st Line Management Development Programme (MAGNA) is a management training programme delivered by Optimum Results Ltd. Ireland. It supports SMEs with the interest and potential to access international markets. The programme is adapted to each company or group of companies based on an assessment of their business performance and management skills, and comprises a mix of pedagogic approaches including workshops, sector-specific expert seminars, work-based assignments and online mentoring. The training addresses areas including international business strategy and leadership, e-marketing and social media applications, international supply chain management, and creativity and innovation. A business export plan is a core output for all participating businesses, including capacity in product-pitching for international trade shows and exhibitions.

The training has also been integrated within wider SME development programmes supported by national business development agencies and international aid organisations.

The MAGNA programme has been delivered to over 100 businesses and 1 500 managers across 9 economies in Europe and the Middle East.

Sources: ETF (2018[20]), Good practice fiche MAGNA, https://sharing.etf.europa.eu/sites/dms/ops/el/Documents/Good%20Practice%20Fiche_MAGNA.pdf; Optimum Results (2018[21]), *Optimum Results website*, http://optimumresults.ie/.

- **Boost SMEs' innovation potential by building on the digital and green economies.** These two domains could fuel SME innovation by opening up opportunities as new products, processes and techniques emerge. However, they also create threats, as new skills needs and forms of employment pose new challenges to SMEs. In order to reap the potential benefits, governments should take a proactive approach by facilitating SME access to education and training (e.g. through web platforms) and by ensuring SME skills policies respond to changes in occupations and specialised education and training needs, as well as the need for more advanced vocational skills. Meeting such skills needs will require flexibility in education and training provision. Vocational education and training should be engaged to feed changes in sectors into education and training provision. VET providers could address the horizontal (regional) requirements of the regional innovation system and meet the vertical (national) smart specialisation priorities. VET could be used as a tool to put businesses in the driver's seat for skills development, creating closer co-operation with business through in-company staff training provision and using in-company teacher training to upgrade the skills of VET teachers.

Making better use of the opportunities offered by the digital and green economies could in turn open up opportunities for international trade – a key engine for growth, but one where SMEs are under-represented. Working in international markets opens up more revenue streams for SMEs and as a result provides more employment and tax revenue for the government. Government bodies should work with the training community, particularly in sectors with export potential, to improve the provision and quality of training in the digital and green economies, with a particular focus on accessing EU markets. This should include a review of digital skills capacity of SMEs to allow them to participate in the EU's digital single market.

The Austrian Economic Chamber's SME DIGITAL programme, a new digitalisation programme in co-operation with the Federal Ministry of Economic Affairs, offers an example of how SMEs can be supported in seizing the business opportunities arising from digital transformation. First, it offers the SMEs an online status check, to determine how digital their business is. This analysis tool allows companies to carry out a quick initial check to identify their digital starting place. The programme also includes financial support, consulting services, events, webinars, analysis tools and training programmes (UEAPME, 2018[22]).

- **Build the systems and capacity to monitor SME skills policies and policy interventions** within the priority areas identified in the smart specialisation strategies. Smart specialisation cannot happen without suitable and continuous monitoring and analytical efforts. The WBT economies' monitoring mechanisms should be able to capture the relevant changes foreseen for each smart specialisation priority through the appropriate choice of result indicators; they should also capture the policy outputs that are expected to make the planned changes happen (Gianelle and Kleibrink, 2015[23]).

Estonia's approach could offer insights into monitoring SME skills intelligence. The development of entrepreneurship skills is an increasingly important topic in Estonia. The economy has relatively recently developed an SME policy monitoring and evaluation system for its SME Strategy 2014-20, which includes entrepreneurship support schemes such as business counselling and entrepreneurship training, and a full quantitative evaluation every two years with the support of foreign experts under the responsibility of the Ministry of Economic Affairs and Communication. However, the Estonian government has made less significant progress in using skills intelligence in SME policy monitoring and evaluation to make rigorous assessments of policy effectiveness and to use the results for continuous policy improvement (OECD, 2018[24]).

Conclusions

Overall, despite the limited progress achieved by all of the WBT economies in developing enterprise skills, they have taken some positive steps to improve SME competitiveness and sustainability through their growth phases and technological change.

All of the WBT economies have improved their statistical foundations for analysing companies' skills and continued their efforts to streamline the sharing of information and data. Moreover, they have all recognised the importance of supporting SMEs' ability to trade with the EU Single Market. Implementation of smart specialisation has brought skills to the top of their strategic agendas.

Nevertheless, better monitoring of SME support programmes will be needed to enable decision makers to identify successful and less relevant support measures. Training should particularly focus on supporting SMEs operating within the EU Digital Single Market.

There are currently no examples to learn from in EU or OECD countries, as they have treated skills as an afterthought and are only now considering them in more depth. It is therefore up to the WBT economies to show the way forward and establish good practice.

Addressing the recommendations proposed in this chapter will support the relevant decision makers and institutions in the WBT economies in building SME skills into smart specialisation strategies, as well as boosting the SMEs' innovation potential.

Notes

[1] Since 2015, all EU candidate countries and potential candidates develop ERPs to prepare for their future participation in the EU's economic policy co-ordination procedures (EC, 2018[30]). The ERPs are a key element of the "fundamentals first" approach of the EU's enlargement strategy (EC, 2018[31]). ERPs play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation (EC, 2018[30]).

[2] Smart specialisation originated in the EU as a concept for stimulating innovation-driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services and, ultimately, economic growth. Human capital, knowledge dissemination and transfer, and support to entrepreneurship are all key elements in the successful implementation of smart specialisation strategies.

[3] For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

[4] The Copenhagen Process (2002) and the Riga Conclusions (2015) underscore the role of VET and skills in the European growth and jobs agenda. The Copenhagen Process focuses on innovation in skill formation and drives forward EU-level co-operation. These are further reiterated in the Riga Conclusions which call to strengthen co-operation in VET and boosting employability and competitiveness.

References

Cedefop (2019), *Forecasting Skill Demand and Supply*, European Centre for the Development of Vocational Training, http://www.cedefop.europa.eu/en/events-and-projects/projects/forecasting-skill-demand-and-supply (accessed on 11 February 2019). [5]

EBRD (2019), *Finance and Advice for Women in Business*, European Bank for Reconstruction and Development, https://www.ebrd.com/women-in-business/finance-and-advice-for-women-in-business.html (accessed on 11 February 2019). [17]

EC (2018), *2018 Communication on EU Enlargement Policy*, European Commission, Strasbourg, https://ec.europa.eu/commission/sites/beta-political/files/roadmap-factsheet-tallinn_en.pdf (accessed on 28 February 2019). [31]

EC (2018), *Economic Reform Programmes: Western Balkans and Turkey*, European Commission, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf. [30]

EC (2018), "Montenegro 2018 Report", *Commission Staff Working Document*, No. SWD(2018) 150 final, European Commission, Strasbourg, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-montenegro-report.pdf. [16]

EC (2018), "Serbia 2018 Report", *Commission Staff Working Document*, No. SWD(2018) 152 final, European Commission, Strasbourg, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-serbia-report.pdf. [15]

EC (2018), *The Digital Skills and Jobs Coalition*, European Commission website, https://ec.europa.eu/digital-single-market/en/digital-skills-jobs-coalition. [25]

EC (2017), *SBA Fact Sheet and Scoreboard*, DG Internal Market, Industry, Entrepreneurship and SMEs, European Commission. [27]

EC (2017), *Smart Specialisation Platform*, European Commission website, http://s3platform.jrc.ec.europa.eu/digital-skills. [26]

EC (2017), *Strengthening Innovation in Europe's Regions: Strategies for Resilient, Inclusive and Sustainable Growth*, European Commission, Brussels, https://ec.europa.eu/regional_policy/en/information/publications/communications/2017/strengthening-innovation-in-europe-s-regions-strategies-for-resilient-inclusive-and-sustainable-growth. [28]

EC (2016), *A New Skills Agenda for Europe,*, European Commission, Brussels, https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52016DC0381&from=EN. [2]

EC (2016), *Europe's Next Leaders: The Start-up and Scale-up Initiative*, European Commission website, https://ec.europa.eu/growth/content/europes-next-leaders-start-and-scale-initiative-1_en. [29]

EC (2012), *Guide to Research and Innovation Strategies for Smart Specialisations (RIS 3)*, Publications Office of the European Union, Luxembourg, http://dx.doi.org/10.2776/65746. [18]

EC (2010), *Europe 2020: A European Strategy for Smart, Sustainable and Inclusive Growth*, European Commission, Brussels, http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf. [1]

ETF (2018), *Good practice fiche MAGNA*, European Training Foundation, Turin, https://sharing.etf.europa.eu/sites/dms/ops/el/Documents/Good%20Practice%20Fiche_MAGNA.pdf (accessed on 28 February 2019). [20]

ETF (2018), *Turkey: Helping SMEs Internationalise Through Training*, European Training Foundation, website, https://www.etf.europa.eu/en/news-and-events/news/turkey-helping-smes-internationalise-through-training. [19]

ETF (forthcoming), *Skills Mismatch Measurement in the ETF Partner Countries: Montenegro*, European Training Foundation. [9]

Eurofound (2013), *European Company Survey 2013*, European Foundation for the Improvement of Living and Working Conditions, https://www.eurofound.europa.eu/surveys/european-company-surveys/european-company-survey-2013. [4]

Eurostat (2018), *Statistics Explained: Business Demography Statistics*, European Commission, https://ec.europa.eu/eurostat/statistics-explained/index.php/Business_demography_statistics (accessed on 26 November 2018). [10]

Gianelle, C. and A. Kleibrink (2015), "Monitoring mechanisms for smart specialisation strategies", *S3 Policy Brief Series*, No. 13/2015, Joint Research Centre, European Commission, http://s3platform.jrc.ec.europa.eu/-/monitoring-mechanisms-for-smart-specialisation-strategies?inheritRedirect=true (accessed on 26 November 2018). [23]

Gribben, A. and G. Lasku (2013), "Creating a competitive edge: Promoting SME skills", *Inform Policy Briefing*, No. 17, European Training Foundation, https://www.etf.europa.eu/sites/default/files/m/AFE2F738FDDBF676C1257C760059EFC3_INFORM_17_SME%20skills.pdf. [3]

OECD (2018), *Monitoring and Evaluation of SME and Entrepreneurship Programmes*, Policy Note: SME Ministerial Conference, 22-23 February 2018, Mexico City, OECD, https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Parallel-Session-6.pdf. [24]

OECD (2017), *Going Digital: Making the Transformation Work for Growth and Well-Being*, Meeting of the OECD Council at Ministerial Level, Paris, 7-8 June 2017, OECD, https://www.oecd.org/mcm/documents/C-MIN-2017-4%20EN.pdf. [12]

OECD (2016), *Getting Skills Right: Assessing and Anticipating Changing Skill Needs*, Getting Skills Right, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264252073-en. [8]

OECD (2013), *Skills Development and Training in SMEs*, OECD Skills Studies, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264169425-en. [13]

OECD/LEED (2018), *Innovation in Skills Development in SMEs: Highlights*, OECD, Paris, https://www.oecd.org/cfe/leed/TSME%20Highlights%20FINAL%20formatted.pdf (accessed on 26 November 2018). [7]

Optimum Results (2018), *Optimum Results website*, Optimum Results, http://optimumresults.ie/. [21]

Sanfey, P. and J. Milatovic (2018), *The Western Balkans in Transition: Diagnosing the Constraints on the Path to a Sustainable Market Economy*, European Bank for Reconstruction and Development, https://www.ebrd.com/documents/eapa/western-balkans-summit-2018-diagnostic-paper.pdf. [6]

UEAPME (2018), *Best Practices on Assisting SMEs with the Digital Transformation*, UEAPME: the European crafts and SME employers' organisation, https://ueapme.com/IMG/pdf/UEAPME_Best_Practices_on_Assisting_SMEs_with_the_Digital_Transformation.pdf. [22]

UNIDO/GEF (2017), *Global Cleantech Inovation Programme for SMEs and Startups*, United Nations Industrial Development Organisation, https://www.unido.org/sites/default/files/files/2017-12/GCIP-Brochure.pdf. [14]

Van den Eynde, K. (forthcoming), "Start-up training: Customising for greater impact", *Inform Policy Briefing*, No. 24, European Training Foundation. [11]

Chapter 10. Innovation policy for SMEs (Dimension 8b) in the Western Balkans and Turkey

This chapter assesses policies and infrastructure for fostering innovation in small and medium-sized enterprises (SMEs) in the Western Balkans and Turkey. It starts with an overview of the assessment framework and the progress made since the last assessment in 2016. It then analyses the four sub-dimensions of Dimension 8b: 1) policy framework for innovation, considering the overall strategic approach to innovation; 2) government institutional support services for innovative SMEs, looking at the physical infrastructure to support SME innovation; 3) government financial support services for innovative SMEs, assessing the availability and scale of direct and indirect financial schemes; and 4) SME and research institution collaboration, asking whether policy approaches seek to establish links between academia and industry. Each sub-dimension concludes with key recommendations to support SMEs in becoming more innovative.

Key findings

- **Progress has been made in developing holistic innovation frameworks**, and the majority of the assessed economies have an innovation strategy in place, or are in the process of renewing one.
- **Horizontal co-ordination of innovation policy has improved** across the region, with national councils for innovation established in four economies. However, monitoring and evaluation of policy implementation is largely insufficient.
- **Governments have scaled up financial support for innovation.** While donor support remains critical, a few governments have allocated significant budgets to sustain this type of policy support in the long term.
- **Most economies have introduced a mix of financial instruments to support firms' innovation and technology development**. However, with the exception of Turkey, none of the assessed economies have capitalised fully on the potential of indirect financial support – such as fiscal measures to encourage investments in research and development – as a cost-effective policy tool.
- **Disbursement rates of funds earmarked for innovation are often low**, suggesting there is room to increase SMEs' awareness to absorb available funds, and to improve the design of financial instruments.
- **Young companies increasingly benefit from a solid infrastructure of incubators** that also extends to regions outside the main economic hubs. A small number of accelerators has been developed through private sector initiatives as well.
- **Several economies have established science and technology parks, technology institutes and technology transfer offices,** but it is too early to evaluate their impact.
- **The first regional venture capital fund – the Enterprise Innovation Fund (ENIF) – has started operating** in the Western Balkans, backed by the European Union and several international financial institutions. The number of investments made so far has been relatively low – 16 at the time of writing.
- **Effective programmes to encourage industry-academia collaboration remain scattered**. Government efforts to foster collaboration seem to be hampered by the private sector's poor perception of public research institutes' capacity, and the lack of an environment encouraging academic staff to engage in joint activities with the private sector.

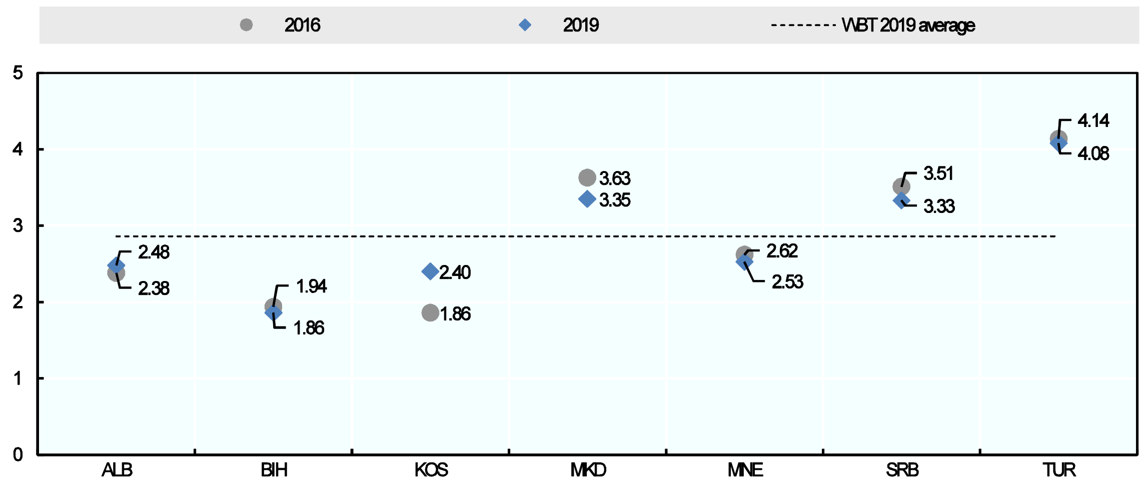
Comparison with the 2016 assessment scores

Overall, the innovation policy scores of the Western Balkan and Turkey (WBT) economies have changed little since the last assessment in 2016. Kosovo[*] has recorded the largest improvement, yet this partially reflects the fact that it was starting from a low

[*] This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

base (Figure 10.1). The assessment found a two-tier performance among the economies, with the Republic of North Macedonia, Serbia and Turkey having more developed innovation ecosystems underpinned by solid public policy tools and instruments.

Figure 10.1. Overall scores for Dimension 8b (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

The WBT economies have at least partially addressed all the recommendations made in the 2016 assessment (OECD et al., 2016[1]), as shown in Table 10.1. They have taken a number of actions to enhance innovation policy frameworks and governance, while scaling up financial support to boost innovation activities and technology commercialisation. In contrast, concrete measures to ensure the long-term sustainability of financial instruments and reduce donor dependency, or to promote an holistic ecosystem approach to innovation, have been limited.

Table 10.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 8b

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	**Regional progress status**
Develop and adopt policy frameworks and well co-ordinated governance structures	- Albania, Serbia and Montenegro have adopted new innovation strategies; Turkey was preparing a new one at the time of writing. - Serbia has established an intra-ministerial council; Kosovo has set up a dedicated Ministry of Innovation and Entrepreneurship.	Advanced
Promote an “ecosystem” approach to innovation	- Little progress has been made to promote an holistic approach to innovation, and initiatives remain fragmented. - Holistic co-ordination mechanisms that include all stakeholders are largely absent, and policy measures are ill-designed to support enterprises throughout all stages of the business cycle.	Limited
Further develop innovation-related	- The hard infrastructure to support innovation has evolved, particularly in Montenegro (Technopolis), Serbia (Belgrade STP) and Turkey, where new	Moderate

infrastructure	incubators, technology parks, technology development zones and STPs are operational.	
Promote co-operation between academia and private sector	- Turkey continues to offer large-scale programmes to support R&D and commercialisation; Serbia has introduced a new instrument to foster industry-academia collaboration. - Serbia and Turkey have or are implementing reforms to the IPR legal framework to encourage patent applications.	Limited
Further promote financial instruments covering the entire financial cycle	- All economies have implemented direct financing instruments for innovation, but scale often remains limited. Most notably, North Macedonia and Serbia have increased the scale of financial instruments, which are well used in Serbia, but disbursements in North Macedonia are quite low. Albania has established a small-scale fund for innovative projects; Kosovo launched its first-ever innovation fund in 2018.	Moderate
When developing innovation-related infrastructure, economies should focus on the development of a sustainable business model	A large proportion of financial and technical assistance continues to be provided through international donors; however, there have been some encouraging trends: - The government provides significant funding in Turkey; Serbia and, most recently, North Macedonia have provided some national budget contributions to more recently launched financial schemes by their respective innovation funds. - Both Albania and Kosovo have allocated small-scale funding to financing schemes. - All Western Balkan economies, except for Bosnia and Herzegovina, have made financial contributions to the Western Balkans Enterprise Development & Innovation Facility. All economies have contributed to the Horizon 2020 programme.	Limited

Note: IPR – intellectual property rights; R&D – research and development; STP – science and technology park.

Introduction

Innovation, as defined by the OECD *Oslo Manual*, is the "implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations" (OECD/Eurostat, 2005[2]).

There is a clear link between firm innovation and productivity. Innovations help firms to boost growth and productivity, even if only a small percentage of them advance to the global technological frontier (EBRD, 2014[3]). Firms' capacity to create knowledge largely depends on external factors. The quality of institutions, rule of law, availability of a skilled labour force and labour regulations are identified as greater constraints to doing business by innovative firms than those that do not engage in product innovation. For smaller firms, these are even more important.

Against this background, supporting the development of a knowledge economy and boosting innovation capacity have become priorities for governments around the globe. While it is imperative for policy makers to build a broader knowledge-enabling business environment, they also need to emphasise supporting innovation at enterprise level, for instance in the form of financial and technical support schemes available to local businesses or by building a strong ecosystem conducive to innovation by firms.

The Small Business Act for Europe identifies a number of practices to support innovation in SMEs, and encourages governments to undertake activities in the following broad areas:

- strengthening programmes to promote innovative clusters and networks, and provide support to high-growth enterprises (particularly SMEs)
- ensuring simplified access to public research infrastructure and national research programmes, and active participation of SMEs in transnational research activities
- fostering innovative activities and the commercialisation of knowledge through the development of financial and non-technological support services for small businesses (EC, 2008[4]).

Assessment framework

Structure

This chapter analyses the innovation policy framework and the available public support to foster innovation in SMEs in the WBT region. The analysis hinges around four sub-dimensions:

- **Sub-dimension 8b.1: Policy framework for innovation** looks at the overall strategic approach of innovation policy and its implementation, and how SMEs are covered by this framework.
- **Sub-dimension 8b.2: Government institutional support services for innovative SMEs** reviews the physical non-financial infrastructure to support innovation in SMEs across all stages of the business cycle.
- **Sub-dimension 8b.3: Government financial support services for innovative SMEs** assesses the availability and scale of direct and indirect financial schemes to stimulate innovation by firms.

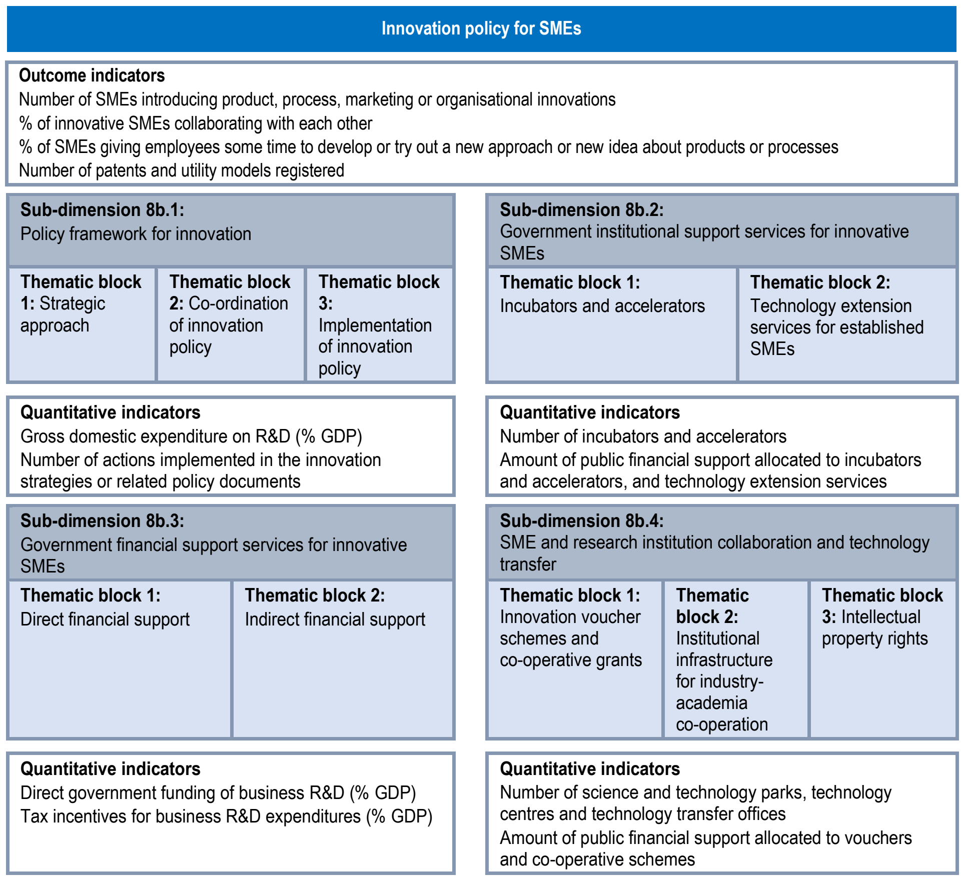
- **Sub-dimension 8b.4: SME and research institution collaboration and technology transfer** examines policy approaches to establishing linkages between academia and industry, both financial and non-financial, and reviews the legal framework for intellectual property protection.

Each sub-dimension assesses the policy performance by dividing it into two or three thematic blocks. Figure 10.2 shows how the sub-dimensions, thematic blocks and their constituent indicators make up the assessment framework for the innovation policy for SMEs dimension.

The assessment was carried out through collection of qualitative data with the help of questionnaires filled-out by governments, as well as face-to-face interviews undertaken with SME owners and managers. In addition to collecting qualitative inputs, an integral part of the assessment was the compilation of quantitative data on certain indicators that were requested from the economies' statistical offices.

Where applicable, findings are confirmed with underlying statistical evidence of firm innovation, R&D activity and development of a knowledge economy. However, statistical data is currently not consistently present across the region. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Figure 10.2. Assessment framework for Dimension 8b: Innovation policy for SMEs



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

Key methodological changes to the assessment framework

While the content of the analysis remains largely unchanged since the 2016 assessment, the framework has been restructured based on the approach developed in the OECD *Reviews of Innovation Policy* (OECD, 2018[5]). An additional thematic block has been introduced to recognise the importance of effective collaboration between SMEs and research institutions to enhance technology transfer and commercialising innovations. This and other changes are highlighted in Table 10.2.

Table 10.2. Key changes in the composition of Dimension 8b

Sub-dimension	Key changes since the 2016 assessment
Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	New thematic block added: "Innovation voucher schemes and co-operative grants"
	"Institutional infrastructure for industry-academia co-operation" moved out of Sub-dimension 8b.1 and added to Sub-dimension 8b.4.
	'"Intellectual property rights" moved out of Sub-dimension 8b.3 and added to Sub-dimension 8b.4'

Other sources of information

In addition to the assessment framework, the analysis of this dimension also draws on information and data from the European Innovation Scoreboard 2018 (EC, 2018[6]) and other European Commission (EC) sources, such as data on the use of Horizon 2020 funds; as well as the United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute of Statistics. To assess innovation and intellectual property protection, data from the World Economic Forum's Global Competitiveness Index were also used (WEF, 2017[7]).

Analysis

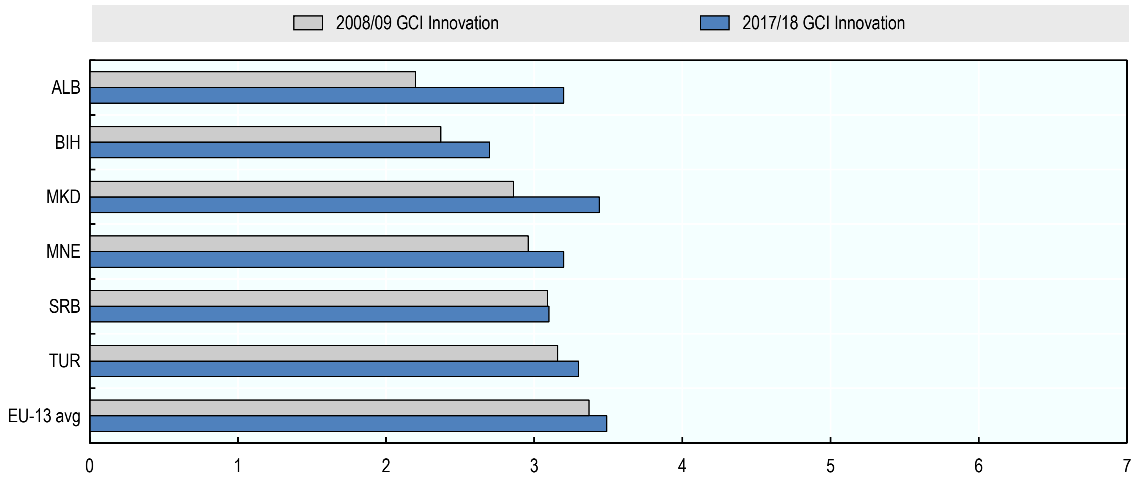
Performance in innovation policy for SMEs

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. This analysis section starts by drawing on the outcome indicators chosen for this dimension (see Figure 10.2) to assess how innovative the Western Balkan and Turkey economies are.

The WBT region has substantially improved its innovation performance in the past decade, but it continues to lag significantly behind European peers.

The European Innovation Scoreboard 2018 identifies those economies included in the EC's assessment – North Macedonia, Serbia and Turkey – as modest or moderate innovators, although it emphasises that they have been starting to strongly catch up the EU countries and improve their overall performance in recent years (EC, 2018[6]). Similarly, the World Economic Forum's analysis in the Global Competitiveness Index confirms that the gap is closing (Figure 10.3). Although the WBT economies continue to perform less well than their European peers in innovation, the last ten years have seen a rise from an average score of 2.8 in 2008/09 to 3.2 in the 2017/18 index. This reflects an overall increase in the economies' capacity to innovate, in their policy frameworks for innovation, as well as in the quality of their scientific research institutions.

Figure 10.3. WBT innovation scores in the Global Competitiveness Index (2008 and 2017)



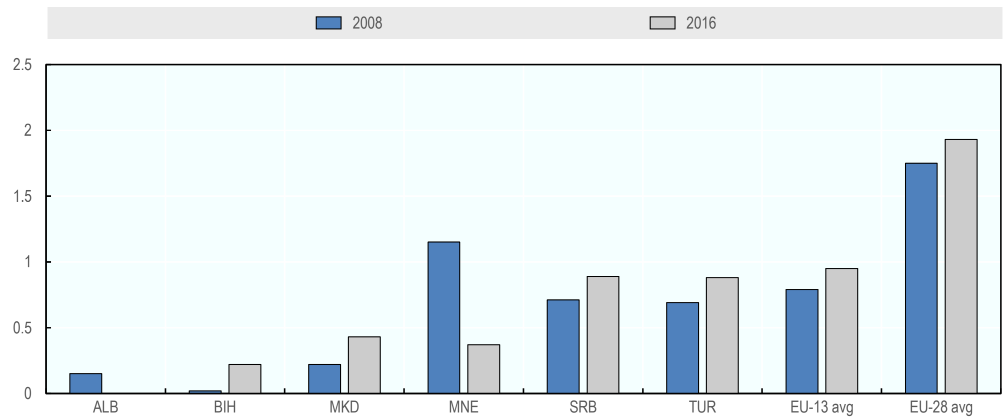
Note: Data for Kosovo not available; data for North Macedonia from 2017; scores range from 1 to 7, where 7 is the highest. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
Sources: WEF (2008[8]), *The Global Competitiveness Report 2008-2009,* www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2008-09.pdf; WEF (2017[7]), *The Global Competitiveness Report 2017-2018,* www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf.

StatLink http://dx.doi.org/10.1787/888933937603

However, the region continues to score particularly poorly for private sector spending on research and development (R&D). Overall shares of gross domestic expenditure on research and development as a percentage of gross domestic product (GDP) have increased since the onset of the global financial and economic crisis in 2008 (UIS, 2018[9]). But overall spending on research and development remains negligible, particularly in the business sector. As Figure 10.4 shows, R&D spending is below 1% of GDP in all WBT economies, compared to approximately 2% on average across European Union (EU) countries. As a result, the region falls well short of the target for EU countries to raise overall R&D investments to 3% of GDP by 2020.

Figure 10.4. R&D expenditure as a share of GDP (2008 and 2016)

% of GDP



Note: Data for Albania only available for 2008; data for Kosovo not available. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
Source: UIS (2018[9]), *R&D Data Release,* http://uis.unesco.org/en/news/rd-data-release.

StatLink http://dx.doi.org/10.1787/888933937622

All economies participate in the EC's Horizon 2020 programme.[1] Up until mid-2018, the region had participated in over 1 000 projects, receiving financial support in excess of EUR 210 million. Given the size of their economies, Serbia and Turkey have been the most active – participating in over 300 projects (Serbia) and 560 projects (Turkey). Other economies have also taken part, though the low level of funding they have received has not yet exceeded their contributions to the scheme (Table 10.3).

Table 10.3. Horizon 2020 portfolio (2014-18)

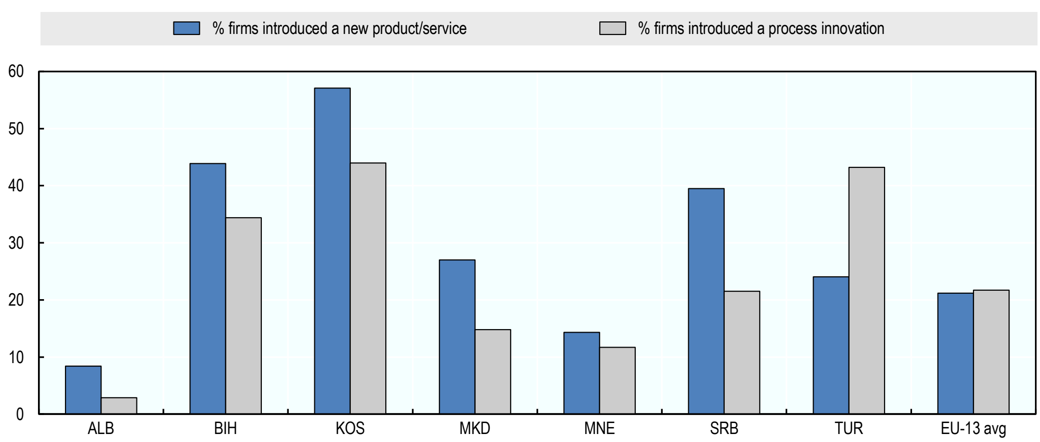
	Project participation (no.)	EU contribution (EUR million)
ALB	25	2.2
BIH	51	4.5
KOS	10	0.9
MKD	61	6.9
MNE	25	1.6
SRB	302	66.5
TUR	562	128.6
TOTAL	**1 036**	**211.2**

Source: EC (2018[10]), *Horizon 2020 Framework Programme (H2020): Projects & Results*, https://ec.europa.eu/info/funding-tenders/opportunities/portal/screen/opportunities/projects-results;programCode=H2020 .

Patent application levels are significantly lower than those of the region's European peers confirming that, overall, innovation that advances the technological frontier remains subdued. However, innovation should go far beyond R&D, as the OECD *Oslo Manual* suggests. It also involves more incremental changes, including adopting existing technologies and services and introducing organisational and managerial changes (OECD/Eurostat, 2005[2]).

Analysing the self-reported levels of innovation by firms suggests a more positive trend (Figure 10.5). The percentage of firms that have introduced new products and services or a process innovation is higher in Bosnia and Herzegovina, Kosovo, Serbia and Turkey than it is on average in the Central European and Baltic countries. Given the low levels of R&D spending, this suggests that these innovations are often imitations, involving adopting existing products and services from abroad.

Figure 10.5. Share of innovating firms in the WBT region (2016)



Note: EU-13 Member States – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
Source: EC (2017[11]), Digital Skills to Boost Innovation, http://s3platform.jrc.ec.europa.eu/digital-skills.

StatLink http://dx.doi.org/888933937641

The findings in Figure 10.5 confirm the overall positive innovation trend in the region. External factors, such as an increasingly stable macroeconomic environment in recent years, are important determinants of innovation. However, these promising developments are also the result of policy makers slowly recognising the importance of innovation for productivity and long-term economic growth.

Policy framework for innovation (Sub-dimension 8b.1)

An overarching innovation policy framework is vital to put in place long-term economic goals and lay out strategic directions, while outlining concrete policy measures to build an innovation-supporting ecosystem. Due to the cross-cutting nature of innovation, it is imperative to have a framework that defines the roles of different public institutions, as well as ensuring that the measures are complementary.

However, treating innovation in isolation is insufficient. While the innovation policy framework may include a standalone, dedicated innovation strategy, it is typically linked to and referenced in other key strategic government documents – including, but not limited to, the SME strategy, education and science strategy or industrial development strategy.

The policy framework should ideally capture both technological and non-technological innovation, and incorporate policy measures such as fostering innovation activity and R&D, commercialisation, and technology transfer. A strong focus should also be placed on supporting small enterprises, which typically face higher obstacles to innovating. Best practice policy frameworks also include a concrete action plan for implementation and quantifiable indicators to monitor progress and evaluate impact.

This section assesses the existence and quality of innovation policy frameworks in the WBT region. It looks at the availability of holistic innovation strategies, policy co-ordination mechanisms, as well as implementation of innovation policy (Table 10.4).

Table 10.4. Scores for Sub-dimension 8b.1: Policy framework for innovation

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Strategic approach	3.60	2.25	2.90	3.80	3.45	3.60	4.60	**3.46**
Co-ordination of innovation policy	2.33	1.44	2.33	3.67	2.33	3.67	5.00	**2.97**
Implementation of innovation policy	2.57	1.86	2.43	4.14	2.57	4.14	3.57	**3.04**
Weighted average	**2.83**	**1.89**	**2.55**	**3.94**	**2.79**	**3.88**	**4.17**	**3.15**

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

Overall, the region has made tangible progress in improving innovation policy frameworks since the last assessment. Legislation has advanced in some economies, but while formal co-ordination and implementation bodies are in place, more effort needs to be put into effective execution and measuring the impact of innovation policies. Turkey, closely followed by North Macedonia and Serbia, are the top performers in this aspect.

Policy frameworks are progressing, but co-ordinated implementation is lacking

Setting up a cross-cutting policy framework is increasingly recognised as the cornerstone to fostering innovation in the Western Balkans and Turkey. Most notably, Albania, Montenegro and Serbia have adopted new innovation strategies and action plans since the last assessment in 2016. Turkey's National Science, Technology and Innovation Strategy expired in 2016; its new national Science and Technology Innovation (STI) Strategy 2017-2023 is yet to become operational. While adoption is pending, other strategic documents refer to innovation policy, including the SME Strategy (2015-2018) and the 10th Development Plan. North Macedonia has had a comprehensive strategy in place since the last assessment. Despite having an action plan for monitoring and evaluating the strategy, however, there is no evidence of ongoing assessment of its implementation. In

Bosnia and Herzegovina, R&D and innovation policy is dealt with at the entity level.[2] In the Republika Srpska, the Strategy for Scientific and Technological Development adopted in 2017 represents the key strategic framework for innovation, whereas in the Federation of Bosnia and Herzegovina, the SME Development Action Plan is the only document that discusses innovation. No progress has been made in Kosovo, where innovation policy frameworks remain at the draft stage.

Turkey remains the top performer in horizontal policy co-ordination and implementation. Its Supreme Council for Science and Technology co-ordinates innovation policy, while the two implementing agencies, the Scientific and Technological Research Council of Turkey (TÜBİTAK) and the SME Development and Support Organisation (KOSGEB), run a number of programmes to support SME innovation.

By contrast, cross-ministerial policy co-ordination remains rudimentary across many of the Western Balkan economies, as several ministries are responsible for innovation policy or co-ordinating bodies do not exclusively focus on innovation. Within the region, Serbia has made the biggest progress by establishing an intra-ministerial council to co-ordinate science, technology and innovation policies in 2017. Kosovo established a dedicated Ministry of Innovation and Entrepreneurship in 2017, although its exact role in co-ordinating and implementing innovation-related policies in relation to other government bodies is not yet clear, and it will need to build capacity. The co-ordination body that North Macedonia set up several years ago has recently become effectively non-operational. In Albania, innovation policy implementation is overseen by the newly created Agency for Scientific Research and Innovation and the Albanian Investment Development Agency (AIDA), its SME agency. It has no clear co-ordination mechanism in place, however. Montenegro, having adopted the Law and Strategy for Innovative Activities, has renamed the Scientific Research Council the Council for Science, Research and Innovation, and entrusted it with the additional task of fostering innovation. Bosnia and Herzegovina has made little progress even though a co-ordination body would be particularly helpful to ensure consistency and alignment of policies across the entities.

All the assessed economies have mechanisms in place to monitor the implementation of innovation policy, albeit at different levels of functionality. However, comprehensive evaluations of measures are very rare across the region, and limited to some donor-funded programmes.

Innovation support activities in the region are predominantly funded by international donors

North Macedonia and Serbia's innovation funds, and Turkey's TÜBİTAK, each serve as the primary implementation agency for the national policy framework on innovation. The Serbian Innovation Fund has continued to build expertise since the last assessment, and North Macedonia's Fund for Innovation and Technology Development (FITD) has started operating, although its capacity remains somewhat limited and its disbursement rates below potential. Other economies have not yet established dedicated innovation agencies and predominately provide support to innovative enterprises through broader SME agencies. In July 2018, an Innovation Fund was established in Kosovo with a budget of EUR 4 million partly co-financed by Gesellschaft für Internationale Zusammenarbeit (GIZ). Disbursement of funds was expected to start before the end of 2018 at the time of writing.

Most financial and non-financial assistance is backed by international donor support, particularly the European Union, but also other bilateral donors such as the World Bank and GIZ. Only the Turkish Government provides significant national budget support to implement enterprise support schemes. In Serbia, the government has recently provided notable budget allocations to the Innovation Fund, but in the other economies national contributions are largely symbolic. In North Macedonia, with the exception of the FITD's operational costs, all the innovation funds have so far been covered by a World Bank loan. As donor funds start running out, public support will need to kick in if economies are to continue implementing their innovation policy framework.

The way forward for the policy framework for innovation

- **Take an overarching strategic view and co-ordinate policies across the whole of government**. Failure to do so can create overlapping and even contradictory measures, while leaving gaps in government support in crucial areas. Economies without a valid innovation strategy in place should accelerate drafting and adopting one, and more emphasis should be placed on implementation across the region. The economies need better co-ordination with policy areas that impinge on or benefit from innovation. Systematic monitoring and evaluation would also help governments identify bottlenecks and adjustments needed in implementation, and increase policies' long-term impact.
- **Develop sector-specific support and "smart specialisation" frameworks.** As general innovation policy frameworks are improving and SMEs' absorption capacity indicates a long-term potential for innovation, governments can start developing vertical innovation policies targeting specific sectors or thematic areas. To that end, smart specialisation, conceived by the European Commission, can offer a valuable way forward. It identifies high-potential areas in which to specialise, based on an analysis of the economy's strengths and potential involving a wide range of stakeholders (Box 10.1) (EC, 2017[11]).

  Successful implementation of smart specialisation frameworks hinges on designing a more tailored mix of innovation policy measures, by targeting certain segments of SMEs, as well as the main obstacles to innovation that policy makers would like to address. Given the limited financial resources allocated to innovation, prioritising only those areas deemed to be the most competitive and offering the greatest potential can be a cost-effective use of public funds.
- **Improve statistical data to formulate evidence-based policies.** Systematic data collection and more widely available innovation-related statistics will enable effective monitoring and evaluation frameworks, as well as benchmarking. At present, only North Macedonia, Serbia and Turkey are included in the European Innovation Scoreboard, while the remaining economies are not covered due to a lack of statistical data.

Box 10.1. Smart specialisation policies in the Western Balkans and Turkey

Background

The smart specialisation approach combines vertical industrial, educational and innovation policies to address a limited number of priority areas, sectors and technologies for knowledge-based investments, focusing on their strengths and comparative advantages.

The smart specialisation concept is relatively new to economic development, and was first initiated by the European Union. It includes a comprehensive capacity assessment that aims to identify and target the most competitive industries with innovative potential, in order to accelerate the country's economic and scientific development. Smart specialisation is implemented across most EU countries, and is gaining appreciation worldwide.

Notwithstanding its importance, smart specialisation cannot serve as a replacement for a broad innovation policy framework, and is less suitable for countries that are yet to achieve greater innovation capacity and holistic institutional frameworks. However, where a specific sub-sector or technology has been identified as having an indigenous advantage, smart specialisation may complement broader, multiple-sector innovation strategies.

State of play in the Western Balkans and Turkey

Overall, smart specialisation efforts remain in their infancy in the WBT economies, with strategies still in the drafting stage. However, with a strong push from the European Union, smart specialisation is rising to the top of policy makers' agendas in the region.

In 2017, the heads of government of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia endorsed a Multi-annual Action Plan for a Regional Economic Area in the region. This encompasses economic development strategies based on knowledge and innovation and builds on the experience of smart specialisation from EU Member States and regions. Echoing this ambition, the EU's 2018 strategy for the Western Balkans also outlines how smart specialisation can be implemented through technology transfer and start-up support, in order to boost entrepreneurship and innovation across the entire region (EC, 2018[10]).

Against this background, the EU offers support through the EC's Joint Research Centre to help the WBT economies to develop smart specialisation strategies and apply a dedicated methodology.

Serbia and Montenegro are the frontrunners in the region, with both economies expected to adopt the first two strategies by 2019. Table 10.5 summarises the current status of smart specialisation efforts in the region.

Table 10.5. Overview of smart specialisation in the Western Balkans and Turkey

ALB	Preparations to develop a smart specialisation strategy started in 2017 under the leadership of the Ministry of Education, Sports and Youth with EU support.
BIH	No ongoing or planned activities.
KOS	No current activities but a smart specialisation strategy was being planned at the time of writing.
MKD	Preparations for a smart specialisation strategy began in 2018.

MNE	A smart specialisation strategy is being prepared by the Ministry of Science in collaboration with the Ministry of Economy; adoption is expected by early 2019. An inter-ministerial working group has been set up including business, academia and non-government organisations (NGOs). Priority sectors identified include information and communications technology, renewable energy, sustainable agriculture and food value chains, new materials and sustainable technologies, and sustainable and health tourism.
SRB	Since 2016, the Joint Research Centre has been conducting a pilot project to build capacity for participatory and evidence-based processes in Serbia; insights will provide input for designing and implementing smart specialisation policies in other enlargement economies. As part of this project, a smart specialisation strategy for Serbia is being prepared; adoption is expected in 2019.
TUR	Three out of Turkey's 26 NUTS-II regions[3] have set up smart specialisation strategies (Kocaeli, Manisa and Konya sub-regions). However, there is no strategy at the national level for the whole economy.

Sources: EC (2018[12]), *What is Smart Specialisation?*, http://s3platform.jrc.ec.europa.eu/what-is-smart-specialisation; EC (2018[13]), *Innovation Agenda for the Western Balkans - Tools and Methodologies*, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/supporting-innovation-agenda-western-balkans-tools-and-methodologies.

Government institutional support services for innovative SMEs (Sub-dimension 8b.2)

This section looks at public sector institutional support services for innovative SMEs, in particular the presence of incubators and accelerators, and the quality of services they provide to young enterprises. In addition, it looks at the availability of technology extension services, such as technology centres or other specialised support services for established enterprises.

Incubators are essential components for supporting companies in the early and seed stages, providing services that would not otherwise be easily available to young companies. The most common and best-known types of incubator services include providing office and collaborative spaces, along with targeted training and mentoring.

Accelerators target innovative start-ups with high growth potential and a preliminary business model in place, and provide them with seed capital funding in exchange for equity. Accelerator programmes usually have a short time span, during which companies receive intensive entrepreneurship-focused business training, access to local and regional mentorship networks, and advice from well-established companies. The programme's completion is usually linked to a pitching event to possible investors.

Accelerators can either be run by the public or the private sector but, due to their nature, are usually commercially driven. In contrast, incubators are open to a broader range of start-up companies that need support to bring an idea to the market. Incubators work over a much longer time span and offer more general business skills. They usually do not provide any capital and are typically established by universities, local governments, economic development organisations or other public sector institutions.

Innovation is not confined to start-ups and high-growth enterprises, however. Many enterprises, particularly SMEs, "purchase" knowledge, rather than "create" it. They outsource R&D to specialised firms and rent patents, licences or other know-how, and new products often emerge from the adoption of existing technologies. While this type of incremental innovation may not advance global technological frontiers, it is however key to developing a knowledge economy and boosting economic productivity, with more established SMEs usually more inclined to adopt an incremental approach. As a result, policy support measures should be designed to address both types of innovation and recognise incremental innovation as well as breakthroughs.

Dedicated technology extension services (TESs) can help to improve the use of "new-to-firm"[4] innovation in SMEs through technological and other solutions. These do not focus on creating new technologies, but aim instead to increase access to existing innovative products and processes. By stimulating the diffusion of modernised ways of manufacturing, TESs can raise SMEs' adoption capacity, and thus pave the way for future innovations.

Overall, public institutional infrastructure supporting SME innovative activities has expanded in the region, but there is much room for further development. Incubators operate in all WBT economies, including outside major economic hubs, while accelerators are less common (Table 10.6). Comprehensive TESs are largely absent across the Western Balkans, while Turkey offers these services for SMEs operating in certain sectors. Turkey continues to outperform the rest of the region in this sub-dimension.

Table 10.6. Scores for Sub-dimension 8b.2: Government institutional support services for innovative SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Incubators and accelerators	1.71	2.24	3.00	3.14	3.00	3.43	4.43	**2.99**
Technology extension services for established SMEs	2.50	1.00	1.00	2.67	1.00	1.00	3.00	**1.74**
Weighted average	**2.03**	**1.74**	**2.20**	**2.95**	**2.20**	**2.46**	**3.86**	**2.49**

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

Institutional support services are expanding, especially incubators

Turkey continues to have the most developed infrastructure for incubators and accelerators, running a comprehensive Incubation Centre and Accelerator Support Programme that supports start-ups. A total of 60 technology development zones (TDZs) now operate throughout the country, hosting thousands of innovative start-ups and providing them with incubation services. Additional incubators, run by KOSGEB and TÜBİTAK, are also available throughout the country. In addition, KOSGEB has been operating more than 20 technology incubators (TEKMERs), the majority of which are based outside of economic hubs. However, TEKMERs are currently being restructured, and many were not operating at the time of writing. TÜBİTAK supports accelerators through the Bireysel Genç Girişim Programme.

Incubators are also common throughout the Western Balkans region. However, the services provided usually do not go beyond office space, basic information and communication technology (ICT) equipment and general business and management training, without extending technical skills or a specific focus on innovation. They largely lack product and prototype development facilities, such as fabrication laboratories, leading to a proliferation of start-ups in the ICT sector that do not require these advanced facilities. Moreover, many incubators are donor-supported and need to increase their scale and impact to ensure self-sustainability in the medium term. In Albania and Bosnia and

Herzegovina, a limited number of incubators operate but are not yet properly developed beyond a few pilot experiences.

Governments have scaled up financial support for incubators, albeit from low levels. In Kosovo, the Investment and Enterprise Support Agency (KIESA) operates a number of incubator services, located in a growing number of industrial parks and economic zones. In addition, the newly established Ministry of Innovation and Entrepreneurship has recently allocated a budget of EUR 1.1 million to establish regional innovation centres. In Montenegro, incubators have no specific focus on innovation for high-growth companies and their scale has reduced since the last assessment. Due to the government's increasing focus on science and technology parks (STPs), there is no public sector support for incubators in place. However, recently established incubators have been supported financially at the local level. North Macedonia operates a few incubators and accelerators throughout the economy (Seavus, CEED, NewMans, YES incubator in Skopje and SEEU incubator in Tetovo), although the only genuinely operational incubator is YES and, to some extent, CEED. The scope of services is limited and activities remain largely donor dependent. FITD has launched a public co-financing grant scheme to support business incubators and accelerators in North Macedonia, and four providers were chosen during the scheme's first call in October 2018. In Serbia, the support infrastructure for innovative SMEs has also expanded since the last assessment. The University of Belgrade co-funds a well-established Business Technology Incubator, which has produced several successful companies now operating in the Belgrade Science and Technology Park.

At the time of writing, Serbia hosted the only accelerator programmes in the Western Balkans. StartLabs has already operated successfully for several years, while Start-It and ImpactHub are gradually establishing themselves. However, equity ticket[5] sizes remain small, at below EUR 50 000 in most cases, and more seed funding is needed.

Across the region, the emerging infrastructure of institutional support services to help developing innovation is primarily focused on start-ups and developing the potential for high-tech innovations. In contrast, little support is available for established enterprises, with TESs largely unavailable in all WBT economies. Most economies offer consultancy services and training in business skills to SMEs (for more information, see Chapter 5 on support services for SMEs). However, these are primarily focused on general business skills rather than specialised technology extension. They also remain relatively small scale and are not co-ordinated with policies that present SMEs with "new-to-firm" innovation opportunities, e.g. in quality standards and resource efficiency.

The European Bank for Reconstruction and Development's Advice for Small Businesses programme, operating in all seven economies, provides additional advisory support to established SMEs, including, though not exclusively, in areas related to innovation and technology transfer (EBRD, 2014[3]).

As for public programmes aimed at technology diffusion among SMEs, there are very few initiatives across the region. In Turkey, SMEs can access technology extension services offered through TEKMERs. However, at the time of writing, TEKMERs are being transformed into incubation centres. North Macedonia launched a grant scheme for technology extension in 2018. In Albania, a programme is available to businesses in manufacturing offering innovation audits of their innovation capacity and gaps. However, this funding is largely underused.

Notwithstanding the proliferation of institutional support services, policy makers in the Western Balkans and Turkey do not, by and large, have an all-encompassing picture of their economies' infrastructure landscape. Therefore, they are usually unable to assess their infrastructure needs in order to determine the priority areas for future investment.

The way forward for government institutional support services for innovative SMEs

- **Explore cross-border collaboration and promote an ecosystem approach to innovation.** There have been considerable efforts to build a conducive ecosystem for innovation since the last assessment, but demand continues to exceed supply. Regional institutional and firm co-operation could bolster cross-national R&D and innovation activity, and provide high-potential firms with the services they need. Governments should build greater awareness of European programmes that support innovation in the WBT region – for instance, through the Enterprise Europe Network and Horizon 2020 – and build local capacity to increase their take-up. On the other hand, regional co-operation could be harnessed to create innovation infrastructure at the regional level, which would be a cost-efficient way to promote an ecosystem approach for Western Balkan economies.
- **Step up the efforts to accelerate technology diffusion among SMEs**. Most SMEs in the Western Balkans and Turkey are users of new technology, rather than creators of them. Therefore, policy makers in the region should give increased emphasis to promoting "new-to-firm" innovation that would contribute to improving SMEs' productivity and competitiveness. Overemphasis on new-to-market innovation can prevent the region from capitalising on the broader gains to be made from facilitating the absorption and adoption of technology. The region could consider offering technology extension services through the types of arrangements operating in some OECD countries (Box 10.2).
- **Map the innovation infrastructure**. A complete picture of the research and innovation infrastructure in the Western Balkan economies and Turkey is, by and large, not available. Given that donors and civil society are actively involved in providing innovation services and infrastructure, it is not always clear where governments should step in. Therefore, there is a clear need to create a long-term research and innovation infrastructure investment roadmap for each economy based on an understanding of existing infrastructure. This would enable policy makers to better grasp the innovation needs and gaps, and also avoid potential duplication of efforts, most notably by donors.

Box 10.2. Selected technology extension programmes in OECD countries

In OECD countries, technology extension services are not only provided by public institutions, but also by private or public-private entities. In many countries though, firms are still directed to public financing (co-financing or credit lines) to finance these services.

Examples of technology extension programmes targeted at SMEs in OECD countries include:

1. **United States**: the Manufacturing Extension Partnership focuses on direct interventions at the firm level to increase the productivity, competitiveness and innovation potential of SME manufacturers. With 1 300 technical experts operating out of over 60 regional centres, the partnership provides resources and

in-depth audits to SME manufacturers across the United States.

2. **Mexico**: the Technological and Business Assistance System (SATE) was created in 2001 as a US-Mexico Foundation for Science programme funded by the Ministry of Economy's Support Fund for SMEs (Fondo PYME). Its mission is to provide managerial and technological assistance for the technological upgrading of SMEs through a network of certified advisors. Initially focused on the automotive and machinery industry, it extended its activities in 2004 to cover all technology-based SMEs, to include services related to certification and intellectual property, and to facilitate the integration of these SMEs in regional or national value-added production networks. SATE also has an important role in facilitating technology-based SMEs' access to sources of knowledge in research institutions and to federal and state sources of support for innovative investment. SATE built its competences through adopting best practices for the provision of technology assistance and transfer services developed in North American institutions.
3. **Japan**: manufacturing extension programmes in Japan are provided by 262 *kohsetsushi* centres (public industrial technology research institutes), which offer a range of services to Japanese SME manufacturers, including technology guidance; technical assistance and training; networking; testing, analysis and instrumentation; and access to open laboratories and test beds.

Sources: Adapted from OECD (2017), Innovation Policy Platform (2019[14]), *Innovation Policy Platform website*, www.innovationpolicyplatform.org/; Andes, Ezell and Leal (2013[15]), *An Alternative to Mercantilism: Manufacturing Extension Services in Latin American and Caribbean Countries,* www2.itif.org/2013-manufacturing-extension-services-latin-america-caribbean.pdf.

Government financial support services for innovative SMEs (Sub-dimension 8b.3)

Access to finance remains one of the most significant obstacles to SMEs in the Western Balkans and Turkey, as discussed in Chapter 7 on access to finance for SMEs. High-growth and innovative companies, in particular start-ups, are disproportionally affected by funding constraints, mainly due to having fewer tangible assets and less collateral.

Innovation is often costly, as innovative firms require significant funding throughout all stages of the innovation process, including salaries for high-skilled employees, developing prototypes, legal fees for patent applications or even purchasing equipment needed to implement innovations.

As the local banking sector continues to impose steep requirements for collateral and credit histories, public sector financial support schemes can help fill the financing gap for early-stage innovative SMEs.

Policy measures that support enterprises to innovate and invest in R&D can come in a variety of forms. Direct financial support can include grants, subsidised loans, loan guarantees or investments in pioneer venture capital and business angel financing. In addition, governments can provide indirect financial assistance in the form of fiscal incentives, such as tax breaks and credits on R&D spending or purchases of innovative equipment. Other forms of indirect financial support include demand-side instruments such as emphasising innovation in public procurement, which can both stimulate firms to innovate to deliver the services demanded and encourage the early use of pre-commercialised innovations.

This section reviews both direct and indirect financial support to stimulate innovation in small businesses in the Western Balkans and Turkey. Reflecting the importance of financial support, the section analyses in detail the existence and structure of financial schemes or grants and their accessibility. In addition, it looks at indirect channels of financial assistance, such as fiscal support and demand-side policies such as public procurement.

All economies have made progress in this area, as they have all introduced or scaled up financial schemes to support innovative SMEs (Table 10.7). In contrast, indirect financial incentives remain significantly underused, except by Turkey. As a result, Turkey scores highest in this sub-dimension, followed by Serbia and North Macedonia.

Table 10.7. Scores for Sub-dimension 8b.3: Government financial support services for innovative SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Direct financial support	3.80	2.53	3.40	4.20	3.40	4.20	4.80	**3.76**
Indirect financial support	1.00	1.00	1.00	1.22	1.00	1.00	3.44	**1.38**
Weighted average	**2.68**	**1.92**	**2.44**	**3.01**	**2.44**	**2.92**	**4.26**	**2.81**

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

Direct financial support for innovation and R&D has been scaled up, but its impact is low

All economies have made progress in this area and have put financial schemes in place to support innovation in SMEs. Some economies have dedicated institutions to co-ordinate financial support schemes for innovation. While in Turkey, Serbia and increasingly in North Macedonia these institutions are well established, other economies need to make efforts to increase their bodies' capacities, or even to establish them.

Most programmes are implemented with international donor support, although increasingly some are co-financed through national budgets, thereby strengthening their long-term sustainability and local ownership. However, the scale, level of disbursements and impact vary significantly across the region.

SMEs in Turkey can access a large variety of direct funding to support innovation activities and R&D. Both KOSGEB and TÜBİTAK offer a number of comprehensive financing programmes focused on all stages of the innovation process, such as the R&D and Innovation Support Programme and the R&D Start-up Funding Programme for SMEs.

The Serbian Innovation Fund has accelerated disbursements and has, during this assessment period, successfully completed the pilot of the EU-funded Mini and Matching grant programme to support enterprises in developing technical innovations. This has awarded over EUR 6 million to 52 innovative projects and has started to yield results during the assessment period. To meet business demand it has expanded its financial support through a EUR 2.7 million World Bank loan, and has introduced two additional financial instruments of almost EUR 10 million in total, geared at increasing industry-academia collaboration (see SMEs and research institution collaboration and technology transfer (Sub-dimension 8b.4) below). In addition, the Ministry of Education, Science and Technological Development of Serbia supported 397 innovation projects through 8 public calls between 2007 and 2017.

Following its inauguration in 2015, the FITD in North Macedonia is now fully staffed and operational. Through funding provided by a World Bank loan of EUR 17.7 million in 2014 under the Skills, Development and Innovation Support Project, it offers a variety of financing options for innovation, including grant support for start-ups and commercialising innovation. By early 2018, 52 companies had received support. Moreover, as part of the Economic Growth Plan, FITD also provided co-financing grants for high-growth companies, among others.

Albania, Bosnia and Herzegovina, Kosovo and Montenegro provide small-scale financial instruments for innovation. In early 2018, the Albanian government allocated approximately EUR 115 000 to the Innovation Fund administered by AIDA. Enterprises can now benefit from up to EUR 3 100 for a project, and around EUR 4 700 for the purchase of technological equipment.

Innovative SMEs in Bosnia and Herzegovina can benefit from small-scale grant support at both state and entity level, including through the recently established Challenge to Change project supported by Sweden. In 2018, Kosovo rolled out a new fund for innovation dedicated to start-ups, SMEs and NGOs. Its Opportunity Fund grant scheme targets companies in certain sectors that introduce innovations relevant to export markets. In Montenegro, there were several small-scale funds up to 2018, but these instruments were generally designed to support the acquisition of services rather than fully fledged R&D or commercialisation activities. The Ministry of Economy extended its programme of innovation support for SMEs beyond the processing industry in 2018, and allocated a total of EUR 340 000 for 2018.

In addition, all economies in the Western Balkan region, except for Bosnia and Herzegovina, have made investments in the donor-supported Enterprise Innovation Fund (ENIF), sending an important signal about their motivation to invest in innovation in local economies. ENIF is implemented under the framework of the Western Balkan Enterprise Development and Innovation Facility (WB EDIF), and has become fully operational since the last assessment. As of late 2018, ENIF had made 16 investments, mostly in North Macedonia and Serbia, amounting to more than EUR 14 million.

In Turkey, venture capital is relatively well developed and actively supported through KOSGEB, particularly in and around the economic hubs to the west of the country. Between 2014 and 2016, venture and growth capital in Turkey nearly tripled; however the level of venture capital, at TRY 343 million (around EUR 104 million) in 2016, was still lower than the highest level reached in 2011, at TRY 373 million (around EUR 160 million) (for more information, see Chapter 7 on access to finance for SMEs).

Tax incentives to foster innovation remain unused in the WBT

Research and development tax incentives aim to encourage beneficiary firms to invest in R&D by reducing their effective costs. Unlike most types of direct subsides, R&D tax incentives tend to be designed to allow firms to decide the nature and orientation of their

R&D activities, on the assumption that the businesses themselves are best placed to identify research areas (OECD, 2016[16]). R&D tax incentives are in principle more market-friendly and neutral than direct support instruments (Box 10.3)

Box 10.3. Tax incentives for R&D and innovation

Tax incentives for business R&D can involve either advantageous tax treatment of R&D expenditure (expenditure-based provisions) or preferential treatment of incomes from licensing or asset disposal attributable to R&D or patents (income-based provisions).

Expenditure-based R&D tax incentives are widely available to businesses across most OECD countries and many other economies. Within the OECD, only Estonia, Germany and Switzerland do not currently offer specific tax relief for R&D at central or federal level. Tax relief is available to individuals acting as companies (unincorporated businesses) in most of these countries, and some (e.g. Colombia, Denmark, Korea and Turkey) also provide direct relief to individuals for their earnings as employees, for example, to encourage the inward mobility of highly qualified personnel and indirectly reduce the costs incurred by firms or other organisations in attracting those individuals. Tax relief for charitable giving by individuals and corporations often refers explicitly to donations intended to support research and related activities (e.g. Denmark and Hungary).

Income-based incentives are currently less widely used than expenditure-based schemes but, in recent years, their adoption rate has increased within and outside the OECD area. Recent examples include the patent box introduced in Italy, Ireland's Knowledge Development Box regime and the Tax Exemption for Income from Technology Acquisition scheme introduced by Korea in 2015 as a temporary measure for SMEs and high-potential enterprises. The OECD Action Plan on Base Erosion and Tax Profit Shifting seeks to limit the potential harmful effect of such provisions by setting a number of rules that limit their use, and links tax relief to substantive knowledge-development activity (OECD, 2015a). Appelt et al. (2016[17]) discusses the rationale for and emerging evidence on the effectiveness of such schemes.

The distinction between expenditure and income-based incentives can also apply to innovation activities in general and the outcomes of such activities. A few countries, such as France and Spain, provide explicit forms of tax relief for companies that engage in innovation activities other than R&D. Overall, it is more difficult to identify schemes as being innovation-oriented because they tend to adopt very different perspectives for the eligible innovation activity for which relief is provided. The range of tax support measures with a potential incentive effect on innovation is significantly broader, especially in relation to the treatment of capital gains or start-up business activity.

Source: adapted from OECD (2016), Appelt et al. (2016[17]), "R&D tax incentives: Evidence on design, incidence and impacts", https://doi.org/10.1787/5jlr8fldqk7j-en.

As governments across the WBT economies focus on scaling up and implementing direct financial support schemes, tax policies remain nascent.

Albania and Kosovo provide tax relief for purchasing ICT equipment or value-added tax (VAT) exemptions for certain categories of scientific equipment – neither of these, however, are directly aimed at boosting innovation. Some strategic documents have mentioned the possibility of conducting feasibility studies for R&D fiscal incentives, but no concrete steps have yet been taken.

The Turkish Government, in contrast, offers small-scale fiscal measures such as R&D tax incentives and VAT exemptions. In addition, legal regulations exempt revenues stemming from the R&D activities of companies located in TDZs from income and corporate taxes until 2023 (Box 10.4.).

Box 10.4. Turkey's tax incentives to foster R&D and innovation

On 1 March 2016, the Turkish Government introduced an extensive support package for research and development and innovation-related activities, in an effort to become an innovation-driven, high-tech economy. The R&D and Innovation Reform Package was first unveiled by the Prime Minister in January 2016 with the aim of increasing the competitiveness of vital industries, strengthening university-industry co-operation and increasing R&D spending.

As part of this package, an allowance is available until 31 December 2023 to companies that carry out qualifying R&D and design activities. The allowance is equal to 100% of the R&D and design expenditure, and is in addition to a deduction for this expenditure in the statutory accounts. Moreover, 80% of the income tax on the wages of R&D and design personnel is exempt from income-withholding tax – 90% for employees with a PhD or master's degree in any field and a bachelor's degree in the liberal arts.

Half of the social security premium contributions paid for each R&D and design employee will be reimbursed by the Ministry of Finance (up to 10% of the total number of full-time R&D employees), and documents prepared with respect to R&D and innovation and design activities are exempt from stamp duty.

In addition, capital spending on certain machinery is also eligible for tax relief.

To qualify for the benefits, the R&D and design centre must have at least 15 full-time R&D and 10 full-time design centre employees.

Sources: STIPCOMPASS (2016[18]), *R&D and Innovation Reform Package,* https://stip.oecd.org/stip/policy-initiatives/2017%2Fdata%2FpolicyInitiatives%2F17030; Deloitte (2018[19]), *International Tax: Turkey Highlights 2018,* www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-turkeyhighlights-2018.pdf.

Public procurement is an untapped policy tool to promote innovation

In the field of innovation policies, governments have traditionally directed their efforts towards the supply side, ensuring that the private sector operates in an environment conducive to innovation. In recent years, however, demand-side policies to support innovation have gained a more prominent role (OECD, 2011[20]). Among such policies, public procurement is increasingly recognised as a potentially strategic instrument and a policy lever for stimulating innovation. Public procurement for innovation has the potential to improve productivity and to meet social needs. For example, it can steer future investments in a way that addresses existing or future social challenges, or it may allow potential vendors to enter the market with new, innovative goods or services, thus encouraging innovative solutions to pressing challenges (OECD, 2017[21]).

The strategic use of public procurement to boost innovation is closely connected to a government's power to shape and create market conditions. In fact, given the size of public procurement, governments, among other actors, can influence demand at national or sub-national levels.

Against this backdrop, no policies exist in the Western Balkans to harness the potential of public procurement to encourage innovation. With the exception of North Macedonia's innovation strategy, no official strategies or documents even refer to procurement for innovation. Even North Macedonia has yet to develop any concrete actions in that regard. Nevertheless, it also needs to be acknowledged that given the small size of most Western Balkan economies and their public institutions, the pull effect of public procurement for innovation on a particular product or service would be limited.

In Turkey, however, public procurement is well established as a tool to stimulate innovation in SMEs. The Programme for Technology Development and Domestic Production through Public Procurement is one of 25 primary transformation programmes within the framework of 10th National Development Plan (2014-18), approved in 2013. The programme aims to use public procurement to promote innovation, domestic production, technology transfer and innovative entrepreneurship. Following its adoption, a stand-alone action plan – the Programme for Technology Development through Public Procurement – has also been prepared, co-ordinated by the Ministry of Science, Industry and Technology. The action plan consists of 17 policy issues in 5 main components and 17 actions assigned to a consortium of ministries, public bodies, NGOs and chambers of industry.

To foster R&D-based procurement methods, Turkey launched the Public Institutions Research and Development Projects Support Programme in 2005. This programme has been designed to fulfil the R&D needs of public institutions via dedicated calls for projects by universities, industry and public research institutes. The public sector's R&D-based requirements are met by results-oriented R&D projects with no budgetary limitations. However, public procurement procedures under this programme are not entirely compliant with the EU *acquis*, since they give preference to domestic operators (for more information, see Chapter 6 on public procurement). There are no impact assessments, evaluation studies and/or accounts of the state of play for any type of procurement for innovation undertaken in Turkey.

The way forward for government financial support services for innovative SMEs

- **Consolidate financial support measures and increase disbursements**. Regular monitoring and evaluation of financial schemes would enable governments to identify those instruments most needed and demanded. As financial support remains small in most economies, governments should aim at accelerating disbursement rates, focusing both on building the absorption capacity of local markets and also on increasing the skills and expertise of local innovation agencies. Moreover, the instruments need to be flexible, meaning that they should be adjusted as lessons are drawn from experience. They should also be predictable, ensuring that calls for proposals occur regularly and the necessary budgets are earmarked annually.
- **Diversify public support to business R&D.** OECD countries' experience shows that direct funding to SMEs is not the only policy tool available to foster innovation in firms. With a view to stimulating business R&D, they use a mix of instruments that include both direct funding programmes and tax incentives. Given the over-reliance on direct funding in the Western Balkans, policy makers

should gradually diversify their policy tools, and make more use of tax incentives as is done in OECD countries.

SMEs and research institution collaboration and technology transfer (Sub-dimension 8b.4)

A strong partnership between the private sector and academia can help accelerate value creation for innovation. Research institutes can be driven by demand, and receive feedback from businesses on the commercial viability of their research; firms get first-hand access to research. These partnerships would also benefit from the involvement of relevant public actors – in other words, a "triple helix" approach. Such involvement can give governments valuable insights into the obstacles preventing knowledge transfer, which helps them to develop policy measures in response to spur industry-academia collaboration.

In reality, however, there are several practical challenges in implementing triple helix partnerships and creating effective co-operation among the three stakeholders. Academics may have limited time to co-operate with businesses, and may not receive support from their institutions to engage in partnerships. Besides, while academics' priorities may be to translate research into products with tangible impact, financial goals are usually the focus of businesses. This may result in problems with ethics and IPR rights, among other issues. An environment that encourages engagement between businesses and research is needed to overcome these barriers, requiring governments to step in to create a framework fostering co-operation.

Public support for the transfer of knowledge and commercialisation can come in various forms. To alleviate funding barriers and boost R&D, governments can provide financial support, for instance through innovation voucher schemes and co-operative grants. Innovation vouchers enable enterprises to purchase small-scale services from research institutions or universities, often for preliminary research purposes and to test the ground for further co-operation. In contrast, co-operative R&D grants are more substantial and aim at competitive multi-institutional R&D and partner matching.

Policy tools also include enhancing the physical infrastructure to create better links between academia and the private sector. For instance, this can be done by establishing competence centres, technology transfer offices, and science and technology parks. All of these aim to facilitate knowledge transfer between academia and businesses, and often provide R&D services, access to equipment and other business services. STPs in particular can be an important tool to implement high-tech cluster policies and can serve as a platform of co-innovation among incubating enterprises.

Finally, a comprehensive legal framework for protecting intellectual property rights is critical for boosting technology transfer and commercialisation. Regulating ownership of IPR and how royalties are split for publicly funded research creates certainty and increases incentives for R&D and patent applications.

This section looks at policy measures in the WBT region to encourage R&D and linkages between academia and industry. In particular, this sub-dimension assesses the availability of voucher schemes and collaborative grants and the institutional infrastructure for industry-academia co-operation, such as STPs, technology transfer offices and competence centres. It also reviews the legal IPR framework (Table 10.8).

Table 10.8. Scores for Sub-dimension 8b.4: SME and research institution collaboration and technology transfer

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Innovation voucher schemes and co-operative grants	2.00	1.67	2.00	3.00	2.00	4.00	3.00	**2.52**
Institutional infrastructure for industry-academia co-operation	1.80	1.67	2.40	2.80	2.80	3.00	4.60	**2.72**
Intellectual property rights	2.50	2.50	2.50	3.00	2.50	3.50	4.50	**3.00**
Weighted average	**2.02**	**1.83**	**2.26**	**2.92**	**2.42**	**3.50**	**3.94**	**2.70**

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

Overall, collaboration between academia and industry remains below potential in all WBT economies, and evidence from the interviews conducted as part of this assessment suggests that there is low demand from both sides to form partnerships. Turkey and Serbia significantly outperform the rest of the region in this area.

Most economies operate basic voucher schemes, whereas some have introduced more sophisticated collaborative grants. These, however, need to be well designed to meet the absorption capacity of local markets. The institutional infrastructure to support industry-academia collaboration has developed further since the last assessment, but a clear impact is not yet fully evident. Some economies have reformed or are currently reforming their intellectual property rights framework, which may lead to further patent applications in the medium term.

Although all economies have made efforts to bridge the gap between academia and industry, co-operation between the two is still quite limited. Interviews with SMEs revealed a generally negative perception of the research capabilities of universities, leaving them unconvinced of the benefits of collaborating with academia. Intellectual property protection exists in the legal framework of all economies, but does not sufficiently stimulate technology transfer and commercialisation.

Voucher schemes and collaborative grants exist across the region

Innovation vouchers are small lines of credit provided by governments to SMEs to purchase services from public knowledge providers with a view to introducing innovations in their business operations (OECD, 2010[22]). The main purpose of an innovation voucher is to build new relationships between SMEs and public research institutions which will stimulate knowledge transfer directly, and act as a catalyst for the formation of longer-term, more in-depth relationships. In a nutshell, innovation vouchers are intended as pump-priming funding through which initial industry-university relationships can be established.

Some governments have introduced financial incentives for collaboration in the form of innovation voucher schemes and other co-operative grants, though they are largely underused. Albania and Kosovo have launched small-scale innovation vouchers, but both programmes have failed due to insufficient capacity and awareness among local SMEs.

Montenegro has been running a small-scale fund similar to innovation vouchers since 2012; however, between 2015 and 2017 it only supported four firms. Due to the low interest, the Ministry of Economy decided in 2018 to extend the support to all SMEs, instead of just those operating in the processing industry. In 2018, the Ministry of Science also allocated EUR 1 million for a new collaborative grant programme, in which individual projects can be awarded up to EUR 100 000. In Bosnia and Herzegovina, no grants are available or planned.

North Macedonia also has a voucher scheme; however it remains heavily underfunded. In May 2018, the FITD launched a call for co-financed grants and conditional loans for commercialising innovation, and awarded EUR 490 000 to six projects by mid-2018.

The most progress in this area has been made in Serbia, where the Innovation Fund launched an innovation voucher scheme as part of its broader Technology Transfer Facility in 2016, as well as the Collaborative Grant Scheme. The Technology Transfer Facility provides a blend of financial and technical assistance to bring new ideas to market, providing grants of up to EUR 50 000 to facilitate commercialising research projects. To complement this effort, the fund provides small-scale financial incentives to SMEs to use services from public research institutes, triggering great demand for this type of service in the market. In addition, the Collaborative Grant Scheme provides co-financing of up to EUR 300 000 for joint industry-academia R&D projects (see Box 10.5 for more details).

In Turkey, TÜBİTAK runs a collaborative grant scheme to stimulate university-industry collaboration, for instance through the Frontier R&D Laboratory Support Programme and the Support Programme for R&D projects. TÜBİTAK also offers a dedicated patent grant programme, providing financial support for patent applications. However, despite the ongoing work, there is no evidence yet of greater capacity to commercialise research outcomes.

Box 10.5. Fostering industry-academia collaboration in Serbia

Following its successful pilot of two grant programmes for innovative companies, the Serbian Innovation Fund recognised that over 30% of all project proposals had included some form of co-operation with R&D institutions. In response, the fund designed a new grant programme, the Collaborative Grant Scheme for R&D Organisations and Private Sector Enterprises, with the aim of encouraging SMEs and public sector R&D institutions to engage in joint scientific research and development projects. The programme, launched in 2016, is supported by EUR 2.4 million in EU Instrument for Pre-accession Assistance funds, and an additional EUR 1 million from the Ministry of Education, Science and Technological Development of the Republic of Serbia.

Under the programme, the Innovation Fund provides co-financing of up to 70% of the cost of commercially oriented research and development projects. It has a cap of EUR 300 000 per project, helping to significantly reduce the financial risk of failure. Funds are disbursed on a quarterly basis against deliverables, ensuring transparent financial management of the grant financing and procedural compliance.

The projects are selected through a highly competitive international, independent and meritocratic two-step evaluation process, including both technical peer reviewers and a five-member investment committee with ample international expertise in technology and investments.

During the pilot, the Innovation Fund received 96 applications, greatly exceeding the originally expected turnout. Of these, 28 projects were pre-selected for consideration, and 14 projects were awarded EUR 3 million in total. This was complemented with an additional EUR 1.37 million in private sector co-financing. By mid-2018, after approximately 1.5 years of development, 5 projects had already seen new products developed and 4 had successfully adopted transferred technology.

The design and functionality of the programme is very much demand driven and responding to specific market failures identified during the implementation of previous programmes. The two-stage independent and international evaluation processes ensured selection was based on merit and the potential for commercialisation and market impact. The programme also benefitted from a strong communication campaign, including the organisation of open days and matchmaking activities between SMEs and R&D institutions, to raise awareness and encourage applications.

Source: Serbian Innovation Fund (2018[23]), *Collaborative Grant Scheme Program*, hwww.innovationfund.rs/cgs-program/.

The infrastructure to link industry and academia is limited

All WBT economies continue to invest in creating infrastructure that enhances linkages between businesses and academia, but the impact is yet to be seen. In Albania, Bosnia and Herzegovina and Kosovo, the OECD has organised triple helix competitions bringing together academia, business and public sector institutions but the hard infrastructure to support more intensive engagement, such as STPs, is still weak. Albania's Triple Helix action plan mentions a feasibility study to explore ways to increase industry-academia collaboration and Kosovo has recently opened an Office for Sponsored Programmes and Research at the University of Pristina. In Bosnia and Herzegovina, some support is provided through INTERA, a private foundation; however, it functions more like an incubator.

Both Montenegro and Serbia have made progress, but despite these efforts, synergies are only slowly emerging. Montenegro is in the process of completing an STP at the University of Montenegro, and the innovative entrepreneurship centre Technopolis has become fully operational. Serbia has numerous technology institutes and STPs, including some with a sectoral focus. The largest STP in Belgrade, opened in 2016, now hosts over 60 companies.

Turkey continues to operate large-scale programmes to increase collaboration between academia and industry and enhance commercialisation. TEKMERs have been established at various universities and the TDZs support business-academia co-operation. In addition, KOSGEB involves local researchers in the evaluation of innovation projects.

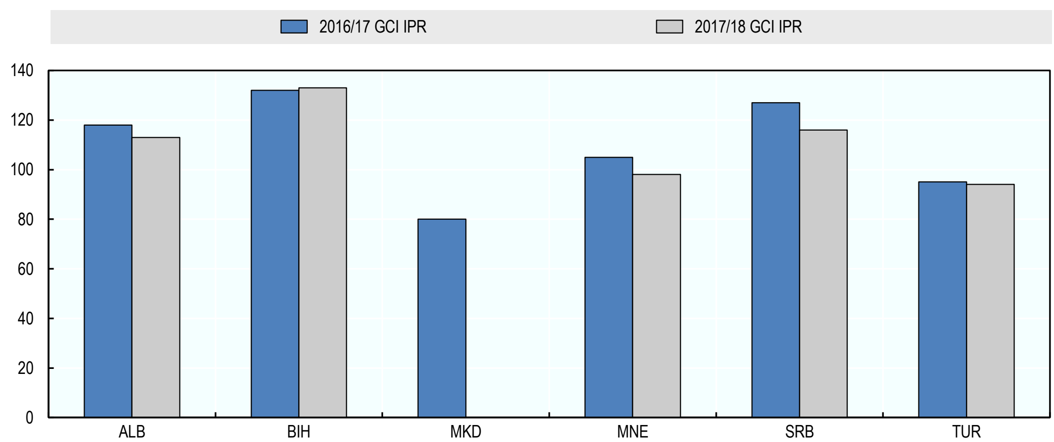
Poor awareness of the importance of an IPR regime is a common limitation

In order to increase SMEs' innovative capabilities and stimulate innovation through different channels, for instance by encouraging R&D collaboration, it is vital to enhance SMEs' awareness of the potential of an IPR regime. Firms must be advised on how to benefit from IPR systems to achieve their innovation policy goals (Ordowich et al., 2012[24]).

Despite legislation for intellectual property protection largely being in place, all WBT economies perform poorly in the World Economic Forum's Global Competitiveness

Index (GCI) for intellectual property protection, suggesting that enforcement is weak and not aligned with best practice (Figure 10.6). The region's poor performance in this area may also be a reason for the overall low level of patent applications.

Figure 10.6. Intellectual property protection scores in the Global Competitiveness Index (2016-18)



Note: Data for Kosovo not available. Data for North Macedonia are from 2017. Performance is ranked on a scale from 1 to 137, with 1 being the highest possible.
Sources: WEF (2016[25]), *The Global Competitiveness Report 2016-2017*, www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf; WEF (2017[7]), *The Global Competitiveness Report 2017-2018* ,www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf.

StatLink http://dx.doi.org/10.1787/888933937660

Some economies have taken steps to improve their IPR frameworks to provide more certainty and encourage R&D. Serbia has established rules governing the splitting of IPR between individuals and institutions, which should encourage researchers to patent their discoveries in the future. Turkey is also carrying out legislative reform that has the potential to boost patent applications. Other economies have not clearly defined the split of royalties. North Macedonia envisages measures to increase awareness of IPR among SMEs in its Competitiveness Strategy, but has yet to take any concrete steps to do so.

Despite the improved IPR frameworks across the region, interviews with stakeholders revealed that lack of awareness about IPR and of a coherent IPR strategy are common limitations for SMEs. A large majority of SMEs do not integrate IPR into their overall business strategy, and they struggle to grasp which intellectual property instruments are relevant for them to enhance their competitiveness.

The way forward for SMEs and research institution collaboration and technology transfer

- **Intensify co-operation between academia and the private sector.** Policies have emerged to encourage research institutions to develop applied technologies; however, synergies with the private sector are few and incentives for firms to commercialise new technologies are underutilised. More efforts are needed to close the gap, for instance through more dialogue and joint project development under a triple helix framework or active work exchange placements. Better use of innovation voucher schemes could offer further incentives to businesses and academic institutions to start collaborating, by reducing the risks involved in initial exploration. Sweden's experience can offer valuable lessons for the Western Balkan and Turkey economies (Box 10.6).

- **Scale up IPR support services for SMEs.** Only a small number of SMEs use IPRs, either because they lack the necessary knowledge and expertise, or they find procedures to protect their rights too costly (EC, 2016[26]). There is a real need for SMEs to better grasp what intellectual property is and how they can make effective use of it. In this context, policy makers should raise awareness of the strategic opportunities offered by IPRs with the help of tailored information and training programmes. These programmes should also be customised so as to better meet the needs of SMEs operating in different sectors. The programmes could be designed by SME agencies in co-operation with the existing institutions, such as STPs and incubators.

Box 10.6. Sweden's National Incubator Programme: Performance-based support

Sweden is an innovation leader, according to the EC's 2018 Innovation Scoreboard (EC, 2018[6]). Private sector investment in R&D, non-R&D innovation expenditure and ICT training are higher than the EU averages, and the country benefits from an attractive research system.

This achievement is the result of a targeted and holistic policy framework to support innovation which Swedish governments have pursued consistently over the past two decades. In 2001 the Swedish Innovation Agency VINNOVA was established, consolidating the scope of three former innovation and R&D funding agencies and providing a unique common vision for Sweden's knowledge economy. Following a triple helix approach, the agency's focus (particularly in its early years) has been on strengthening innovation co-operation among government, businesses and academia. While this focus has broadly remained, increasing emphasis has also been given to supporting entrepreneurship and business innovation.

In 2003, the authorities established the large-scale National Incubation Program (NIP), originally under VINNOVA's leadership, with the aim of boosting the innovation ecosystem for start-ups by providing funding to incubators. The NIP has gone through various iterations and changes of leadership over the years, but was reassigned to VINNOVA in 2015. Throughout this time, a consistent focus of the programme was on quantitative and qualitative performance measurement, aiming at identifying and supporting those incubators generating impact and effectiveness. The NIP broadly comprises three dimensions of funding for incubators:

- **Basecamp**: widely available to most incubators that meet basic requirements related to operations and number of firms served.
- **Explorer**: facilitating joint programmes to enhance collaboration between individual incubators on innovative projects.
- **Summit**: performance-based funding to selected incubators that have successfully achieved a variety of performance metrics.

The NIP's three-tiered approach allows for a flexible deployment of funding in a transparent and comprehensive way. The design also takes into consideration regional discrepancies in overall innovation and start-up performance, and provides incentives to incubators to develop long-term strategies to improve their performance and impact. The NIP also ensures that funding is well synchronised and available to start-ups at different stages of development and capacity.

Today, Sweden enjoys one of the most active and comprehensive networks of incubators operating relatively evenly across economic hubs and less developed regions.

In addition to providing funding, the main goal – and subsequent success – of the NIP has been the creation of a large-scale incubator community which is based on benchmarking and performance monitoring and evaluation. A self-reporting database tool, accessible to incubators and both current and graduated companies, assesses key performance indicators, both at incubator and firm level. It includes key metrics such as public or private funding received, sales, employment, client satisfaction and survival rates. In 2010, a qualitative assessment in the form of on-site visits to incubators was further incorporated into the monitoring and evaluation framework.

Sweden's approach provides not only an efficient internal management tool for incubators that allows them to benchmark their performance against peers, but also a comprehensive set of performance data for Sweden's start-up community, which is an essential baseline for formulating future policy interventions in this space.

Sources: Sweden's Innovation Agency (2018[27]), *Sweden's Innovation Agency website,* https://www.vinnova.se/en/; Swedish Incubators and Science Parks (2018[28]), *Swedish Incubators and Science website*, https://www.sisp.se/; Centre for Digital Entrepreneurship and Economic Performance (2015[29]), *Centre for Digital Entrepreneurship and Economic Performance website*, http://deepcentre.com/

Conclusions

Since the last assessment, it is evident that the WBT economies have recognised the importance of innovation policies for their development. They have made significant progress in developing holistic innovation frameworks, and the majority have an innovation strategy in place. However, implementing the strategies effectively is still proving to be a challenge. Horizontal co-ordination among the relevant ministries and agencies has room for improvement.

All the governments have implemented new policy measures to support innovation in SMEs, though scale and output has been somewhat mixed. The disbursement of funds allocated for innovation remains low, pointing to the need to better inform SMEs on how to access and absorb the available funds.

Incubators and accelerators have become more widespread, but the public funds supporting them remain scarce. Co-operation between academia and the private sector remains an ongoing challenge which warrants further attention across the region.

Notes

[1] Horizon 2020 is the biggest EU-funded research and innovation programme, and covers the period from 2014 to 2020. The overall objective of the programme is to ensure Europe produces world-class science, removes barriers to innovation and makes it easier for the public and private sectors to work together in delivering innovation. With nearly EUR 80 billion of funding it promotes research and innovation by facilitating the commercialisation of innovative ideas from the lab to the market. In particular, Horizon 2020 provides grants to research and innovation projects through open and competitive calls for proposals. Legal entities from any country are eligible to submit project proposals to these calls. Participation from outside the European Union is explicitly encouraged (EC, 2020[31]).

[2] For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

[3] The NUTS classification (Nomenclature of Territorial Units for Statistics) is a hierarchical system for dividing up the economic territory. For more information see Eurostat (2018[30]).

[4] This refers to innovations which are only new to the firm but available on the market.

[5] An equity ticket represents the amount of funding that an accelerator, incubator or any other investor gives to a startup in exchange for equity in the firm.

References

Andes, S., S. Ezell and J. Leal (2013), *An Alternative to Mercantilism: Manufacturing Extension Services in Latin American and Caribbean Countries*, Information Technology & Innovation Foundation, Washington, DC, http://www2.itif.org/2013-manufacturing-extension-services-latin-america-caribbean.pdf. [15]

Appelt, S. et al. (2016), "R&D tax incentives: Evidence on design, incidence and impacts", *OECD Science, Technology and Industry Policy Papers*, No. 32, OECD Publishing, Paris, http://dx.doi.org/10.1787/5jlr8fldqk7j-en. [17]

Centre for Digital Entrepreneurship and Economic Performance (2015), *Global Best Practices in Business Acceleration*, http://deepcentre.com/wordpress/wp-content/uploads/2015/10/DEEP-Centre-BABI-4-Global-Best-Practices-in-Acceleration-September-2015.pdf. [29]

Deloitte (2018), *International Tax: Turkey Highlights 2018*, Deloitte, https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-turkeyhighlights-2018.pdf. [19]

EBRD (2014), *Transition Report: Innovation in Transition*, Eurpean Bank for Reconstruction and Development, London, https://www.ebrd.com/news/publications/transition-report/transition-report-2014.html. [3]

EC (2020), *What is Horizon 2020?*, European Commission website, https://ec.europa.eu/programmes/horizon2020/en/what-horizon-2020. [31]

EC (2018), *European Innovation Scoreboard 2018*, European Comission, https://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en. [6]

EC (2018), *Horizon 2020 Framework Programme (H2020): Projects & Results*, European Commission, https://ec.europa.eu/info/funding-tenders/opportunities/portal/screen/opportunities/projects-results;programCode=H2020. [10]

EC (2018), *Supporting an Innovation Agenda for the Western Balkans - Tools and Methodologies*, Joint Research Centre, Seville, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/supporting-innovation-agenda-western-balkans-tools-and-methodologies. [13]

EC (2018), *What is Smart Specialisation?*, Smart Specialisation Platform website, http://s3platform.jrc.ec.europa.eu/what-is-smart-specialisation- (accessed on 29 August 2018). [12]

EC (2017), *Digital Skills to Boost Innovation*, Smart Specialisation Platform website, http://s3platform.jrc.ec.europa.eu/digital-skills. [11]

EC (2016), *Start Up Strategy*, European Commission, Brussels, http://www.essenscia.be/Upload/Docs/20161122-IPR.factsheet.pdf (accessed on 31 January 2019). [26]

EC (2008), *Think Small First: A Small Business Act for Europe*, Commission of the European Communities, Brussels, http://ec.europa.eu/transparency/regdoc/rep/1/2008/EN/1-2008-394-EN-F1-1.Pdf. [4]

Eurostat (2018), *NUTS - Nomenclature of Territorial Units for Statistics: Background*, European Commission, https://ec.europa.eu/eurostat/en/web/nuts/background. [30]

Innovation Policy Platform (2019), *Innovation Policy Platrform website*, https://www.innovationpolicyplatform.org/. [14]

OECD (2018), *OECD Reviews of Innovation Policy*, OECD website, http://www.oecd.org/sti/inno/oecd-reviews-of-innovation-policy.htm. [5]

OECD (2017), *Public Procurement for Innovation: Good Practices and Strategies*, OECD Public Governance Reviews, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264265820-en. [21]

OECD (2016), "Tax incentives for R&D and innovation", in *OECD Science, Technology and Innovation Outlook 2016*, OECD Publishing, Paris, http://dx.doi.org/10.1787/sti_in_outlook-2016-24-en. [16]

OECD (2011), *Demand-side Innovation Policies*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264098886-en. [20]

OECD (2010), *Innovation Vouchers*, OECD Innovation Policy Handbook, OECD Publishing, Paris, https://www.oecd.org/innovation/policyplatform/48135973.pdf. [22]

OECD et al. (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264254473-en. [1]

OECD/Eurostat (2005), *Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data, 3rd Edition*, OECD Publishing, Paris, https://doi.org/10.1787/9789264013100-en. [2]

Ordowich, C. et al. (2012), "Evaluating the Impact of MEP services on establishment performance: A preliminary empirical investigation", *Center for Economic Studies Paper*, No. CES-WP-12-15, US Census Bureau, http://dx.doi.org/10.2139/ssrn.2160471. [24]

Serbian Innovation Fund (2018), *Collaborative Grant Scheme Program*, Serbian Innovation Fund website, http://www.innovationfund.rs/cgs-program/. [23]

STIPCOMPASS (2016), *R&D and Innovation Reform Package*, OECD O.N.E. Sight, https://stip.oecd.org/stip/policy-initiatives/2017%2Fdata%2FpolicyInitiatives%2F17030. [18]

Sweden's Innovation Agency (2018), *Sweden's Innovation Agency website*, https://www.vinnova.se/en/. [27]

Swedish Incubators and Science Parks (2018), *Swedish Incubators and Science Parks*, https://www.sisp.se/. [28]

UIS (2018), *UNESCO Science Technology and Innovation Database*, UNESCO Institute for Statistics, http://uis.unesco.org/en/news/rd-data-release. [9]

WEF (2017), *The Global Competitiveness Report 2017-2018*, World Economic Forum, Cologny, Switzerland, http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf. [7]

WEF (2016), *The Global Competitiveness Report 2016-2017*, World Economic Forum, Cologny, Switzerland, http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf. [25]

WEF (2008), *The Global Competitiveness Report 2008-2009*, World Economic Forum, Cologny, Switzerland, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2008-09.pdf. [8]

Chapter 11. SMEs in a green economy (Dimension 9) in the Western Balkans and Turkey

This chapter assesses the provision of policies that promote green behaviour among small and medium-sized enterprises (SMEs) in the Western Balkans and Turkey. It starts by providing an overview of the assessment framework and progress since the last assessment in 2016. It then focuses on the two sub-dimensions of Dimension 9: 1) framework for environmental policies targeting SMEs, which considers the greening aspects in national SME, sectoral and innovation policy frameworks; and 2) incentives and instruments for SME greening, which looks at the various tools and instruments in place – such as regulatory and information-based instruments, financial incentives and green public procurement – to support SMEs in their greening efforts. Each sub-dimension concludes with key recommendations to tackle the challenges identified and help to facilitate SME greening in the region.

Key findings

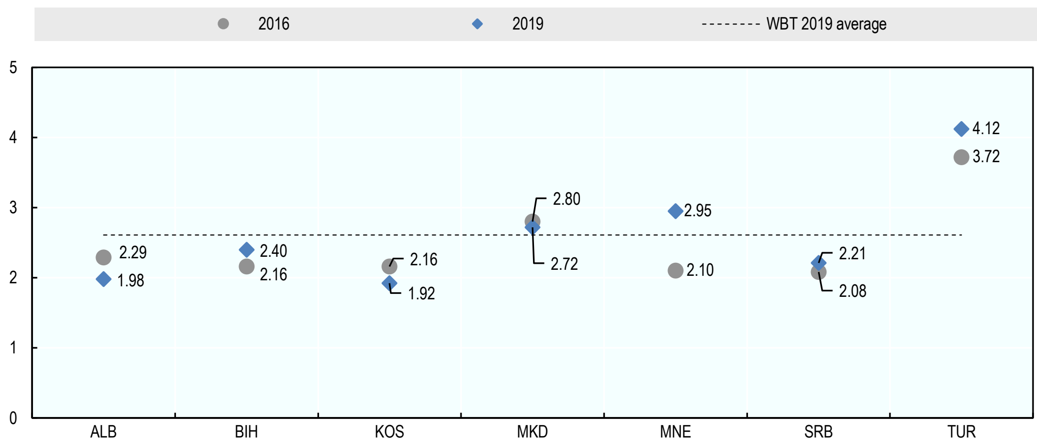
- **SME greening measures and policies are now included in overall SME strategies in almost all the Western Balkans and Turkey (WBT) economies.** Resource efficiency and eco-innovation lie at the forefront of new SME greening measures, which mostly contain clear targets, planned budgets and timeframes.
- **The implementation of SME greening policies remains limited in the Western Balkans**. This is mainly due to the limited budgets allocated for the envisaged greening measures, creating a high dependence on external donor support. The unpredictability of funds results in frequent interruptions and delays in programme implementation, contributing to the overall underperformance in realising the measures.
- **Advice and guidance programmes on SME greening are slowly emerging in the region and greening practices are becoming recognised and awarded.** In particular, these programmes aim to share information and provide expertise to help SMEs take advantage of the opportunities from emerging green markets and improved resource efficiency – most notably, energy efficiency. Some WBT economies are also recognising SMEs for their achievements in the area of environmental protection.
- **Some WBT economies plan to introduce financial incentives for SME greening in their new SME strategies,** but what type of incentives, and how they will be implemented, remains unclear.
- **Incremental progress has been made in introducing non-financial tools for SME greening.** Regulatory instruments are almost non-existent in the entire region, except Turkey. Green public procurement is slowly gaining momentum in some WBT economies.
- **Business associations are increasingly involved in developing and implementing SME greening policies and their supporting instruments**, for example providing information and guidance to SMEs on adopting environmental practices.

Comparison with the 2016 assessment scores

Overall, the regional average score in this dimension stands at 2.61, similar to the 2016 assessment (Figure 11.1). However, this average masks the notable improvement by Montenegro, which has become the second-best performer of the seven assessed economies. The Republic of North Macedonia has also introduced a number of measures aimed at enhancing the environmental performance of its SMEs, but changes in the methodology for calculating the scores have somewhat masked its real improvement. Turkey continues to be the regional leader, reflecting its comprehensive and well-designed government approach to SME greening.

These three economies aside, progress in the Western Balkans has been rather limited, highlighting the need for governments to step up their efforts; particularly in implementing their policy frameworks.

Figure 11.1. Overall scores for Dimension 9 (2016 and 2019)



Note: The comparison of scores between the 2016 and 2019 assessments should be interpreted with caution because of the change in assessment methodology and the introduction of new questions. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

The relative stagnation of the economies' scores is reinforced by the mostly limited implementation across the region of the recommendations in the last SME Policy Index (Table 11.1). A number of the WBT governments have started to provide some kind of information and training for SMEs on environmental issues and they are introducing financial incentives, mainly as part of SME strategies developed since the last assessment. Nevertheless, with the exception of Turkey, all these initiatives are still at an early stage and further actions are needed.

Table 11.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 9

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Make information about environmental practices easier for SMEs to obtain	- Bosnia and Herzegovina, Montenegro and North Macedonia have established some web-based systems and printed material to help SMEs obtain the environmental information they need, but without targeted efforts to disseminate these to a wider group of SMEs. - SME guidance on how to comply with environmental regulations and implement green practices is provided through websites and brochures. However, with the exception of Turkey, this practice is still at an early stage of development and further actions are needed.	Limited
Help finance SMEs to make the transition to greener practices	- Financial incentives are now being introduced through the new SME strategies of Montenegro and North Macedonia, but the type of incentives and how these will be introduced remain unclear. - In Bosnia and Herzegovina, the introduction of financial incentives is envisaged, but has not yet been implemented. - Serbia has developed a donor-based financial instrument, Green Innovation Vouchers.	Limited

Introduction

Long-term economic and social development depends on the ability of a country to grow while safeguarding the natural assets which provide it with vital resources and environmental services. The cross-cutting nature of the environment demands a co-ordinated approach across policy areas.

Environment policies that specifically address SMEs are important for two main reasons. First, although SMEs individually have a smaller environmental impact than large companies, their aggregated environmental footprint is quite significant and often surpasses that of large corporations. According to a recent study, SMEs were responsible for 64% of the total industrial pollution in Europe (Sáez-Martínez, Díaz-García and González-Moreno, 2016[1]).

Second, SMEs' overall potential contribution to economic growth and employment is significant, while their particular characteristics can enable them to adapt to fast-changing market conditions and give them the flexibility to develop new products and practices, including green ones (Moore, 2009[2]). Their less formal communication style and flatter hierarchical structures can offer a favourable environment for new and innovative approaches to green business practices. These features make SMEs good candidates for introducing eco-friendly products and more environmentally friendly practices and services, whilst also helping them develop new business opportunities and build a competitive advantage.

However, SMEs face a number of challenges in adopting sustainable practices and complying with environmental standards. Recent studies show that only large corporations tend to adopt proactive environmental strategies, while SMEs tend to be reactive, only striving to comply when under external pressure (Conway, 2015[3]). This suggests that SMEs face different barriers to adopting environmentally friendly practices and standards than larger enterprises. Internal barriers include insufficient human and financial resources; limited time; and a lack of awareness of their negative environmental impacts or the benefits and business opportunities of "going green". In addition to these internal constraints, external factors such as inadequate institutional support, complex regulatory requirements and the lack of public infrastructure are further obstacles to the green transition (OECD, 2018[4]).

Addressing these challenges requires strategic policies and government action to support SMEs in their pursuit of environmentally friendly practices and business models. Well-designed and tailored policies in this area should create an environment which allows SMEs to seize the opportunities offered by greening, such as improving their resource efficiency, exploring new markets, and building their brand recognition and customer relationship. To start with, SMEs need to know that improving their environmental performance brings tangible economic and financial benefits. As surveys undertaken in the European Union (EU) demonstrate, more than 80% of SMEs that have invested in resource efficiency are satisfied with their returns (EC, 2018[5]).

In contrast, disregarding SME greening opportunities may lead to widening productivity gaps between the companies that improve resource efficiency and those that do not, as well as an overall weakening of firms' competitiveness. At the national level, economies risk losing momentum in their efforts to increase their general productivity and competitiveness, thus diminishing their overall growth opportunities.

Policy makers can use a range of policy options and tools to support the development of environmentally conscious firms: regulatory frameworks, access to finance through support and incentives, green business support services and capacity-building programmes. They need to take concerted public action across these policy areas, including in SME development policies, but in order to avoid the danger of crowding out SMEs' incentives to invest their own resources in "going green", this support should be time-bound and limited in terms of size (OECD, 2018[4]).

Assessment framework

Structure

This chapter assesses the quality of governments' SME-specific policies and actions to foster green growth and development through the following sub-dimensions:

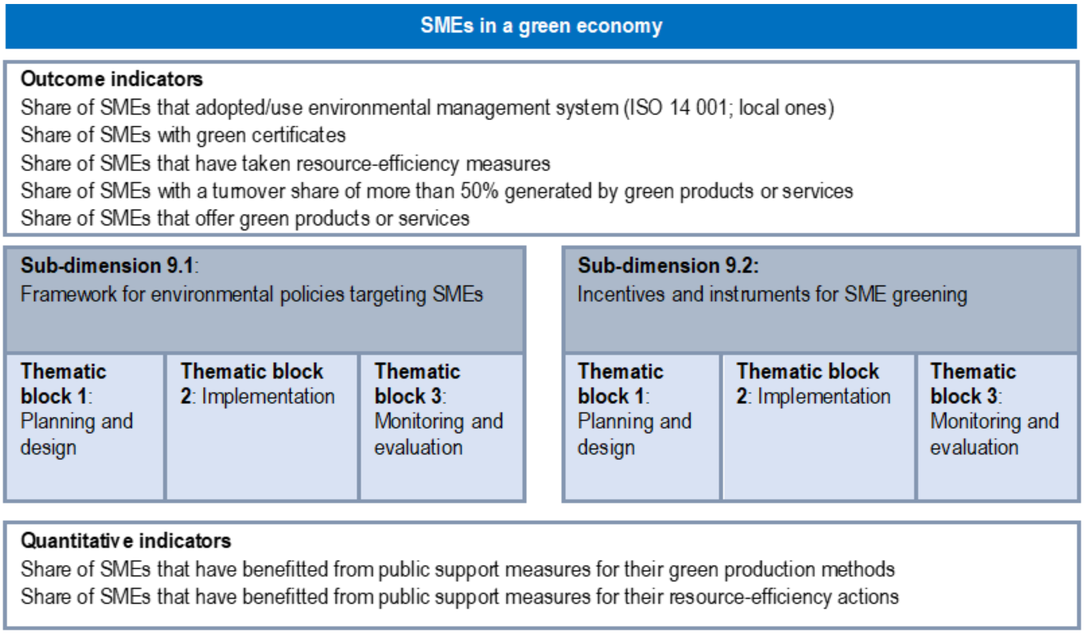
- **Sub-dimension 9.1: Framework for environmental policies targeting SMEs** assesses to what extent the national SME, sectoral and innovation policy frameworks are environmentally friendly.
- **Sub-dimension 9.2: Incentives and instruments for SME greening** evaluates whether tools to complement environmental policies for SMEs are in place and how efficiently and effectively they are implemented.

Each sub-dimension assesses three aspects of policy performance, namely 1) planning and design; 2) implementation; and 3) monitoring and evaluation (Figure 11.2).

The assessment was carried out by collecting qualitative data with the help of questionnaires filled out by governments, as well as face-to-face interviews undertaken with SME owners and managers.[1] In addition to collecting qualitative inputs, an integral part of the assessment involved compiling quantitative data on certain indicators requested from the economies' statistical offices and environmental protection agencies.

Figure 11.2 shows how the sub-dimensions and their constituent indicators make up the assessment framework for this dimension. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Figure 11.2. Assessment framework for Dimension 9: SMEs in a green economy



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

Finally, it is worth adding that the assessment framework has been prepared in full alignment with the Small Business Act Principle 9 (Enable SMEs to turn environmental challenges into opportunities), which calls for the provision of “information, expertise and financial incentives for full exploitation of the opportunities for new ‘green’ markets and increased energy efficiency” (EC, 2008[6]).

Key methodological changes to the assessment framework

The assessment framework is largely unchanged from the 2016 one. However, in each sub-dimension, some policy aspects have been expanded in order to better gauge the actual state of play in those areas (Table 11.2).

In Sub-dimension 9.1 (framework for environmental policies targeting SMEs), the key changes were an enhanced focus on the promotion of eco-efficiency and eco-innovation in national strategic policy frameworks, as well as on whether economies had specific environmental policies for sectors likely to have greater environmental impact and/or green opportunities, such as construction, transportation and agriculture. Sub-dimension 9.2 (incentives and instruments for SME greening) was updated to encompass a broader range of regulatory and other market-based instruments, including performance standards, and environmental taxes and charges. This assessment also evaluated SME greening promotion and guidance more thoroughly.

In order to underline the importance of effective implementation, the scoring weight for implementing policy frameworks has been increased.

Table 11.2. Key changes in the composition of Dimension 9

Sub-dimensions	Key changes since the 2016 assessment
Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Stronger emphasis put on the concepts of eco-efficiency and eco-innovation, as well as on sector-specific environmental policies
Sub-dimension 9.2: Incentives and instruments for SME greening	Expansion of the assessment framework in order to include a larger number of instruments relevant to SME greening policy making
All sub-dimensions	The weights of the thematic blocks in the overall scores have been altered. Greater focus has been placed on implementation (5% increase in the allocated weight).

Analysis

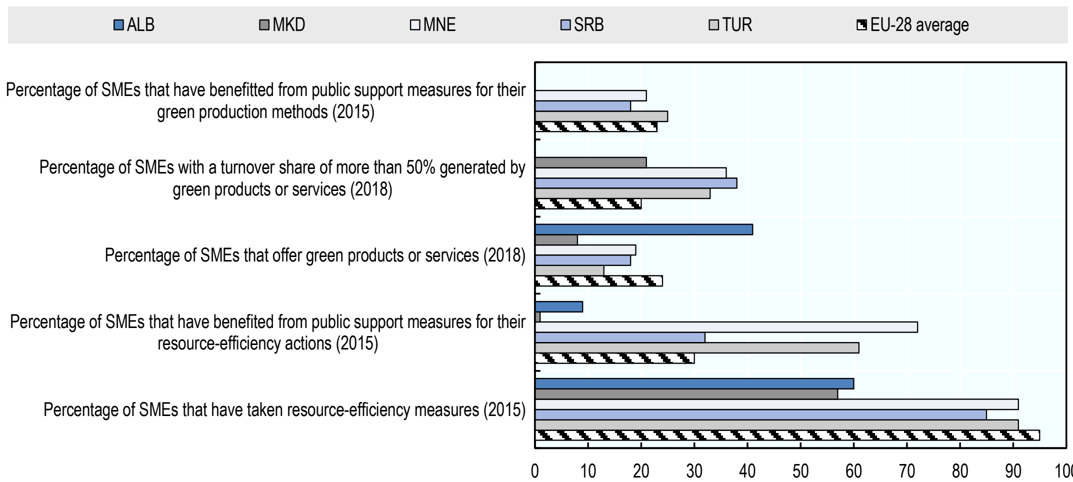
Performance in SME greening

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension (see Figure 11.2) are designed to assess the performance of the Western Balkan economies and Turkey in creating the conditions that make SMEs' transition into a green economy easier. This analysis section starts by drawing on these indicators to describe the level of greening among SMEs in the WBT region.

In general, the seven WBT economies lag behind EU and OECD countries in achieving SME greening. This is particularly the case with the six Western Balkan economies. Policy frameworks supporting resource productivity[2] in the six Western Balkan economies are under development but still need to be adopted (OECD, 2018[7]). In particular, efforts to promote a circular economy[3] are almost non-existent. Although the six Western Balkan economies have "markedly lower levels of material productivity (economic output per unit of domestic material consumption) than the OECD average" (OECD, 2018[7]), very little is being done to improve this. Recycling rates are very low, ranging from less than 5% of total solid waste in Montenegro and Serbia to around 20% in Albania, compared to the EU average of over 50% (OECD, 2018[7]). All these suggest there is room to improve the development of SME greening practices and support them through an effective environmental policy mix.

Nonetheless, there is also some encouraging evidence of SMEs' increased efforts towards greening across the region. The *SBA Fact Sheets* prepared by the European Commission illustrate how the economies of Western Balkans and Turkey performed compared to the EU in 2015 and 2018 in the area of SME greening and assisting SMEs to improve their environmental performance (EC, 2017[8]). As shown in Figure 11.3[4], Turkey, Montenegro and Serbia stand close to the EU average in terms of the share of SMEs that have taken resource-efficiency measures. In addition, the share of SMEs offering green products or services in Montenegro and Serbia is similar to the EU average, while the share in Albania is even higher than in the EU. This demonstrates that SME greening has been recognised as a valuable business opportunity – in terms of developing new products and services, achieving significant cost savings and increasing overall productivity. However, these findings should be interpreted with caution. First, for some economies the sample size was relatively small, meaning a greater margin of error[5] (EC, 2015[9]; EC, 2018[5]). Second, some of the findings are based on the responses gathered from SME surveys conducted back in 2015, and the results might be subjective since responders may have different interpretations of the questions.

Figure 11.3. SME greening business activities and support in Western Balkans and Turkey



Note: Data for Bosnia and Herzegovina and Kosovo* are unavailable. Updated data are available for two SME greening indicators (percentage of SMEs with a turnover share of more than 50% generated by green products or services; and percentage of SMEs that offer green products or services). The rest of the indicators are from 2015. In Bosnia and Herzegovina, the Republika Srpska systematically collects data on the percentage of SMEs that have benefitted from public support measures for their resource-efficiency action, and in 2017 (the latest available data) this share stood at 0.02%. The percentage of SMEs with a turnover share of more than 50% generated by green products or services and the percentage of SMEs that have benefitted from public support measures for their green production methods are zero for Albania and North Macedonia.

Source: Adapted from EC (2017[8]), *SBA Fact Sheets: Albania, Montenegro, North Macedonia, Serbia and Turkey*; EC (2018[5]), *Flash Eurobarometer 456: SMEs, Resource Efficiency and Green Markets*, http://data.europa.eu/euodp/en/data/dataset/S2151_456_ENG.

StatLink https://doi.org/10.1787/888933937679

The private sector interviews that complemented our assessment pointed to the overall lack of government action in the area of SME greening and its underperformance compared to EU and OECD countries. SMEs and business associations from the region pointed to the overall lack of support mechanisms for enhanced environmental performance, except in Turkey. According to the interviews, SMEs in the region were willing to engage in greening activities, and they would welcome stronger government action and support in this regard.

Framework for environmental policies targeting SMEs (Sub-dimension 9.1)

Supporting SMEs in their greening efforts calls for a holistic and cross-cutting approach that addresses multiple factors. The first step in adopting such an approach is to develop a coherent policy framework targeting SMEs, which encompasses the public policy tools and initiatives needed for maximum effectiveness.

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

This section gauges the extent to which the existing national and strategic policy frameworks target SME greening. It examines whether current environmental policies include SME-specific targets – and whether national SME strategic documents focus on environmental issues. It also looks at the content of the policies: how well they promote eco-efficiency and eco-innovation, and whether there are sector-specific policies, particularly for those sectors such as construction, transport and agriculture with a direct impact on the environment. The assessment also covers the implementation, monitoring and evaluation of the policies, and whether there is a body responsible for implementing them (Table 11.3). Finally, it considers private sector involvement in both the design and implementation of activities targeting SME greening.

Table 11.3. Scores for Sub-dimension 9.1: Framework for environmental policies targeting SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.40	3.47	3.67	3.67	3.80	3.80	4.87	**3.81**
Implementation	1.80	2.50	2.20	2.91	2.70	2.00	3.80	**2.56**
Monitoring and evaluation	1.50	2.00	1.50	1.85	2.50	1.50	4.00	**2.12**
Weighted average	**2.22**	**2.69**	**2.50**	**2.93**	**2.99**	**2.44**	**4.16**	**2.85**

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

The average score in this sub-dimension stands at 2.85 (Table 11.3). Since the previous assessment, almost all the WBT economies have introduced environmental policies for SMEs in their national strategic frameworks, resulting in high scores for the planning and design thematic block. However, implementation of these policies remains limited.

Environmental policies are increasingly mainstreamed into SME strategies in the region

The existing SME strategies of Albania, Serbia and Turkey, as well as newly adopted ones in Montenegro and North Macedonia, include measures related to providing advice and guidance to SMEs on improving resource efficiency (in particular energy efficiency), promoting eco-innovation and introducing financial incentives for SME greening.

In Turkey, improving energy efficiency has been emphasised as one of the main goals, and SMEs are provided with a variety of types of support to achieve this. This includes guidance documents and online advice, as well as direct assistance provided as part of SME Development and Support Organisation (KOSGEB) support programmes.

Serbia’s SME development strategy puts a greater focus on promoting eco-innovation, envisaging organising awareness-raising workshops and providing expert support to those companies preparing eco-innovation project proposals under the Horizon 2020 programme.[6]

Montenegro’s new micro, small and medium-sized enterprise (MSME) strategy incorporates measures for promoting the application of eco-standards through educational and promotional workshops and seminars for SMEs on eco-labelling. The MSME strategy complements the well-designed and comprehensive National Strategy for

Sustainable Development until 2030 (NSSD). The NSSD was adopted in 2016 and it lists the introduction of the green economy as one of its six priority themes.

In North Macedonia, disseminating information and providing expertise to help SMEs take advantage of the opportunities from emerging green markets and improved resource efficiency lie at the forefront of the new SME strategy, as well as other national policies. Resource efficiency and eco-innovation are promoted through the Draft Waste Prevention Plan 2018-2024, whose main objectives are strengthening the waste management capacities at both the national and local level, transposing the EU's environmental regulations, and working towards a zero-waste target. The focus is equally on preventing waste generation and benefitting from green market opportunities, such as exporting waste.

In Bosnia and Herzegovina,[7] SME greening policies are devised and implemented at the entity level, and only the Republika Srpska (RS) has policies tailored to SMEs. Information provision on SME greening is one of the key measures introduced in the Republika Srpska's SME development strategy. In the Federation of Bosnia and Herzegovina (FBiH), environmental policies are separate from SME policies, and there are no clearly defined environmental policies targeting SMEs. The FBiH's comprehensive environmental protection strategy does not contain any SME-specific actions or targets, but it indirectly promotes eco-efficiency and eco-innovation among the business population, and hence indirectly among SMEs.

In Albania, the Business Investment Development Strategy (2014-2020) emphasises the need to increase the range of ecological products based on the effective use of resources for cleaner production. It also includes a variety of measures and instruments intended to develop the recycling industry.

In Kosovo, no government strategic document explicitly focuses on SME-specific environmental policies. However, elements of environmental policies that are relevant to SMEs are included in different strategies and action plans, namely the Strategy for Environmental Protection (2013-2022), the Strategy for Development of Energy Sector by 2030 and the Waste Management Strategy (2013-2022). Of these, the main strategy is the Strategy for Environmental Protection (2013-2022), which places a strong emphasis on measures to improve energy efficiency.

Sector-specific policies targeting SMEs are non-existent in the region. However, regional strategic documents and policies that regulate industrial development, energy management, environmental protection, agriculture and rural development, as well as climate change, contain some measures that could equally apply to SMEs.

Policy implementation remains largely limited with almost no systematic monitoring and evaluation

Even though the region's green policies are mostly well designed, and even target SMEs, their implementation remains restricted. Limited budget allocation for planned SME greening measures, combined with delays in mobilising funds for implementation, present major impediments in this area. Several economies are highly reliant on donor funding, throwing the long-term sustainability of these initiatives into question. In most of the region, the government funding earmarked for the promotion of SME greening is so restricted that international agencies and donor agencies are regularly approached to explore co-financing for planned public initiatives in these areas. The resulting volatility in funds allocated to SME greening causes frequent interruptions and delays in programme implementation, and arguably hampers overall performance.

In Montenegro and North Macedonia, greening efforts are still to be fully implemented – given that their new SME strategies were only adopted in April 2018 (North Macedonia) and July 2018 (Montenegro). Montenegro's NSSD strategy has no separate budget allocated for implementing its action plan. However, it is expected that each ministry will provide funds from their own budget for those NSSD measures for which they are responsible. The report on implementing the NSSD should be prepared biannually, with the first one expected to be published during 2019.

Since the last assessment, none of the Western Balkans economies have created government bodies to co-ordinate work in the area of SME greening. Nonetheless, following the introduction of new SME strategies (in Montenegro and North Macedonia), the SME agencies are poised to take over co-ordination responsibility as well. KOSGEB is the main implementation body in Turkey, but there are some concerns over the co-ordination of SME greening-related activities. In particular, there are a number of different bodies in charge of realising the projects on energy efficiency, raising concerns in this area. It will be vital to ensure appropriate inter-organisational co-ordination to avoid potential overlaps in some areas and the lack of action in others.

There are almost no systematic monitoring and evaluation processes in the Western Balkan economies. Despite including a set of performance indicators in the SME strategies of Albania, Bosnia and Herzegovina and Serbia, they lack proper monitoring of SME greening policies and measures. At the time of writing, monitoring mechanisms were in the process of being introduced in Montenegro and North Macedonia, in parallel to the development of their new SME strategies. In contrast, Turkey regularly monitors the environmental policies targeted towards SMEs, but it has not yet carried out an impact analysis of its SME greening policies and programmes.

The private sector is increasingly involved in developing and implementing effective SME greening policies and supporting instruments

In most economies, the private sector was consulted when developing environmental policies and SME greening strategies and action plans. The governments in the region also co-operate with business associations and local councils over the delivery of environmental guidance to SMEs. According to the SMEs interviewed, this co-operation is quite successful in Montenegro, North Macedonia, Serbia and Turkey.

North Macedonia's new Waste Prevention Plan is a good example of public-private co-operation, where private sector representatives are part of the working group aimed at providing concrete advice and guidance to the interested SMEs (see the section on advice and guidance programmes for SMEs below).

Montenegro, Serbia and Turkey have very active chambers of commerce that advocate for SME greening and participate in the strategy development process. In Turkey, the Turkish Union of Chambers and Commodity Exchanges provides inputs into the development of environmental policies for SMEs. Given the local character of the environmental projects KOSGEB implements, it also systematically co-operates with local chambers of commerce and industry. Non-government organisations (NGOs) and business associations are present at the workshops, training courses and meetings organised under the SME greening projects, often providing direct technical support along with the KOSGEB experts.

The Montenegrin Chamber of Commerce has a committee on energy efficiency that organises quarterly meetings aimed at raising awareness on the opportunities that good environmental practices bring to both businesses and society. One of the latest initiatives of this kind, conducted in co-operation with the government, was to promote greater energy efficiency in the construction industry through improvements in waste management, i.e. achieving savings by using construction materials that generate less waste.

The Chamber of Commerce and Industry of Serbia (CCIS) has been supporting a variety of SME greening initiatives in co-operation with the Serbian government. Since August 2016, the CCIS has been implementing a project to promote eco-innovation by providing training and grants to start-up companies and entrepreneurs to develop their new green business ideas. In addition, in September 2018 the CCIS implemented a pilot programme, the Academy for Circular Economy, which provided advice to SMEs on how to make the transition towards a more circular business model. The CCIS also established an Eco-portal*,* which offers important information on environmental standards, eco labelling, and green public procurement. Another CCIS portal intended to provide information on energy-related greening issues – the Green Energy Portal – is in the final stage of preparation.

The way forward for environmental policy frameworks targeting SMEs

SME greening policies are gaining momentum in the WBT region. Environmental policies have become an integral part of almost all the economies' SME strategies, but these objectives have not been translated into concrete actions, and regular implementation needs to be ensured. Overall, all the Western Balkan economies need a more robust approach towards SME greening and a greater focus on implementation.

Specifically, policy makers in the WBT region should:

- **Ensure effective cross-sectoral co-ordination**. Given the cross-cutting nature of SME greening policies, effective co-ordination among the relevant stakeholders is essential for successful policy design and implementation. While economies ideally should have a co-ordination body for SME greening, this does not need to be created from scratch – it could easily be a body that is already in charge of SME policy implementation. Co-ordination should not stop at policy design and implementation, but should continue for regular monitoring and evaluation, as well as for collecting data on SME greening.
- **Facilitate partnerships among businesses to support SME greening activities, such as increasing resource efficiency**. The government should encourage the creation of business networks to enhance peer-to-peer learning and collaboration – including, but not limited to, networking among large firms and their smaller suppliers. To facilitate such exchanges, the government could also encourage and engage with business associations to play a greening support role, given their direct contact with SMEs. This could help foster a circular economy while improving individual environmental performance. As the example of the Turkey Material Marketplace (Box 11.1) shows, these networks increase the overall transaction value for both the buyer and the seller, while at the same time increasing their total environmental performance. Another example is Scotland's circular economy initiative, Zero Waste Scotland, which established the Scottish Circular Economy Business Network (SCEBN) in co-operation with the Scottish Environment Protection Agency.[8] The SCEBN is a platform that provides

opportunities for businesses based in Scotland to come together in a productive forum to focus on collaborative action and work together to develop the circular economy in Scotland. The platform also provides the space and opportunity to help build responsive supply chains, by facilitating co-operation along the value chain. SCEBN is overseen by an active and responsive steering group that provides expert support to its members.

- **Align energy-efficiency measures that are part of the SME greening policy mix with other energy-related policies and strategies**. Given its multidisciplinary nature, achieving improved energy efficiency – one of the key objectives of SME greening policies – should be combined with actions in the area of energy management. In particular, while setting prices for electricity and other major energy inputs in the WBT region, policy makers should consider whether they might discourage enterprises from taking cost-efficiency measures. National regulatory authorities should ensure that transmission and distribution tariffs are non-discriminatory and cost-reflective (EC, 2009[10]).

Box 11.1. Increasing resource efficiency: Turkey Materials Marketplace

The circular economy concept is about decoupling natural resource extraction and use from economic output, resulting in the more efficient use of resources. The concept is gaining momentum in OECD and EU countries. Turkey has recognised the potential of changing the linear economic model of “take, make, dispose” to a circular one in order to improve its country-wide resource efficiency and increase its material productivity.

The Turkey Materials Marketplace (TMM) project was established by the Turkish Ministry of Environment and Spatial Planning and the Ministry of Science, Industry and Technology, with financial support from the European Bank for Reconstruction and Development (EBRD) and the EU.

The TMM is a secure online marketplace platform through which project members are invited to share data on materials used or left over from their operations. With support from the TMM project team, companies work together to identify, evaluate and carry out material reuse opportunities. There are significant economic benefits for buyers in the platform in purchasing industrial by-products, waste or alternative raw materials at moderate prices. Similarly, those selling by-products and production outputs can charge a higher fee than for traditional recycling and disposal, since the materials will be used by another member of the platform and therefore become an upcycled product. Another benefit is the reduced costs of storage. The total social benefits are better waste management and environmental performance.

TMM membership is free of charge while the EBRD funds the project. The TMM team provides technical assistance to members; reviews innovative best practices in materials management from around the world and Turkey; explores the potential use of the members’ materials across different sectors; and identifies potential synergy opportunities among platform members. In June 2018, the EBRD also launched the Circular Vouchers Scheme, which members can apply for. These vouchers are grants to help companies purchase consultancy services to assess the feasibility of material exchanges, and are worth up to EUR 25 000.

This good practice could serve as a model for the rest of the WBT region in improving their waste management and enhancing material flows. The model is also important in the context of the region's planned EU accession. The EU's Circular Economy Initiative and the related waste management directives point to a growing emphasis on this topic in the EU and potential projects and funds that could foster the adoption of circular economy practices in the WBT region.

Sources: McCarthy, Dellink and Bibas (2018[11]), "The macroeconomics of the circular economy transition: A critical review of modelling approaches", https://doi.org/10.1787/af983f9a-en; EBRD (2016[12]), *NØW – Near zero waste*, www.now-turkey.org/; TMM (2018[13]), *Turkey Materials Marketplace website*, http://turkey.materialsmarketplace.org/, OECD (2018[7]), *Competitiveness in South East Europe: A Policy Outlook*, www.oecd.org/about/sge/competitiveness-in-south-east-europe-9789264298576-en.htm.

Incentives and instruments for SME greening (Sub-dimension 9.2)

Incentives and instruments are very important to help SMEs apply cutting-edge and environmentally sustainable practices. As mentioned above, this is primarily due to SMEs' lack of awareness of greening opportunities, combined with the inherent complexity of implementing green practices caused by a variety of internal and external factors. Studies show that environmental regulation imposes heavier burdens on SMEs than on larger businesses.

This section looks at the provision of regulatory instruments and financial incentives for SMEs to adopt environmentally friendly practices. It examines whether information-based instruments are in place, and if there are guidance programmes to support SMEs making the transition to greener practices. The section also assesses the existence of government programmes and actions aimed at promoting environmental management systems and standards, and compliance with environmental regulations. It looks at the entire policy cycle – planning, implementation, and monitoring and evaluation (Table 11.4).

With an average score of 2.42, the WBT economies have made some progress since the previous assessment (Figure 11.1), although they still perform rather poorly. As in the previous assessment, Turkey remains the regional leader, with well-developed regulatory and financial instruments for SME greening in place. Since the previous assessment, North Macedonia has introduced some initiatives for non-financial instruments and Montenegro and Serbia have launched some financial support projects for SME greening and green public procurement, but these are yet to be fully implemented.

Table 11.4. Scores for Sub-dimension 9.2: Incentives and instruments for SME greening

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	1.67	1.67	1.67	2.38	2.98	2.19	3.67	**2.32**
Implementation	2.17	2.42	1.50	2.91	3.41	2.17	4.75	**2.76**
Monitoring and evaluation	1.00	2.25	1.00	1.85	1.53	1.40	3.00	**1.72**
Weighted average	**1.78**	**2.16**	**1.45**	**2.54**	**2.91**	**2.02**	**4.08**	**2.42**

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

Advice and guidance programmes on SME greening are emerging and greening practices are being recognised and rewarded

As underlined before, SMEs usually lack awareness of the negative environmental impacts of their activities or the benefits of "going green" and green business opportunities. This is why it is important that the government provides advice and guidance programmes that offer SMEs the information they need on green practices. Advice means active, direct engagement with a business face-to-face during inspection visits or audits; answering telephone, e-mail or website help requests; or addressing business representatives at seminars and similar events (OECD, 2018[4]). Guidance is the provision of information to regulated entities, typically in written form, whether printed or electronic (OECD, 2018[4]).

In the WBT region, advice and guidance programmes are slowly being introduced. As part of its new SME strategy, the Government of Montenegro plans to introduce programmes to raise enterprises' awareness and strengthen their capacity to deal with energy management issues and energy system optimisation. The strategy also envisages information dissemination and the provision of expertise to help SMEs take advantage of opportunities in emerging green markets and improved resource efficiency. Some activities in this regard are also being carried out by the Chamber of Commerce (see the section above on private sector involvement).

In Albania, the new Environmental Cross-cutting Strategy (2018-2022) focuses on raising awareness about SME greening and increasing resource efficiency, while the main emphasis of Serbia's SME greening policies is promoting eco-innovation and awareness-raising activities. To this end, the Government of Serbia also co-operates with business associations for developing eco-certification projects (see the section above on private sector involvement).

A notable example of advice and guidance programmes comes from North Macedonia, whose Ministry of Environment and Physical Planning offers support to SMEs to obtain the environmental licences they need. It also organises presentations and meetings with interested companies to help them implement regulations. Programmes are developed in consultation with businesses and NGOs, especially ecological organisations. The ministry is the focal point for SMEs and other stakeholders regarding advice and guidance on these matters. In addition, the Waste Prevention Working Group consisting of government members, private sector representatives and experts has been created to represent and encourage all stakeholders in the industry to implement waste prevention actions. In this area, the EU-funded Twinning Project plans to hold training courses for waste producers and SMEs about waste prevention and the circular economy in partnership with the ministry.

In Turkey, KOSGEB endeavours to provide advice and guidance on SME greening under its General Support Programme. KOSGEB also audits firms to determine whether they comply with the environmental procedures and rules specified for each sector according to the risk level. It also promotes the use of environmental management systems (EMSs) by SMEs through environmental audits. In addition to this, the Global Cleantech Innovation Programme (GCIP) offers training and mentoring to young entrepreneurs and SMEs working in the field of clean technologies (environment and energy). GCIP is conducted by the United Nations Industrial Development Organization, the Global Environment Facility fund and the Scientific and Technological Research Council of Turkey, with the aim of developing entrepreneurship ecosystems in the field of clean technologies. Since its establishment in 2014, GCIP has awarded around 80 projects;

mainly in the areas of waste management, water efficiency and renewable energy. Moreover, the Turkish government has established Energy Management Units in its Organised Industrial Zones (OIZs) to provide direct mentoring support to interested companies operating in the zones (see Box 11.2). Information dissemination and promotional activities are planned to become core activities of these units.

Information campaigns and training that aim to raise SME awareness on environmental issues and help them obtain all the necessary information on "going green" are the focus of governmental actions in BiH, particularly in the RS. SME greening-information is available both in print and on line. In addition to this, the RS government envisages introduction of eco-labels so as to increase recognition of good environmental practices in the market.

Good environmental practices in Turkey are recognised through awards offered by chambers and sectoral associations (e.g. the Istanbul Chamber of Industry). Notably, each year KOSGEB names an enterprise the "Environmentally-friendly SME of the Year" in its annual entrepreneurship awards. Moreover, in North Macedonia, the Ministry of Environment and Physical Planning awards SMEs for their achievements in the area of environmental protection and improvement. These awards also exist in Serbia and Bosnia and Herzegovina (but only in the Federation of BiH).

Box 11.2. Enhancing SME energy efficiency in Turkey: creating energy management units in Organised Industrial Zones

As part of the Energy Efficient Industry Project, the Turkish government has formed energy management units in special economic zones (known as Organised Industrial Zones or OIZs). The units aim to reach out to particular production-oriented SMEs and encourage them to adopt energy-efficiency measures. OIZs are designed to allow companies to operate within an investor-friendly environment with ready-to-use infrastructure and social facilities. The infrastructure provided in OIZs includes roads, water, natural gas, electricity, communications, waste treatment and other services.

The project is implemented by the Energy Efficiency Association in partnership with the Ministry of Energy and Natural Resources of Turkey and an Organised Industrial Zones Higher Institution. The project aims to enhance energy efficiency in SMEs in the OIZs by raising awareness, promoting a culture of efficiency among their staff, and introducing small-scale changes in the industry (reducing electricity/water consumption and achieving savings through simple modifications of certain parts of the manufacturing processes). To develop the expertise to establish energy management units, the government co-operated with the local office of the Japan International Cooperation Agency and other partners.

For the last couple of years, energy efficiency has become more pronounced in Turkey – a growing number of SMEs are benefitting from the programmes and savings are being achieved by the beneficiaries.

The measures implemented by Turkey could also be emulated by the Western Balkan economies – especially those such as Bosnia and Herzegovina, North Macedonia and Serbia, that have well-established industrial zones. Co-operation with international organisations on capacity building and to organise programmes and projects for increasing businesses' energy efficiency is already happening in the region, and efforts could now be directed towards SMEs inside the zones.

Sources: Bütüner, H. (2014[14]), Organised Industrial Zones in Turkey - SWOT analysis, https://www.linkedin.com/pulse/20141020214614-114102137-organized-industrial-zones-in-turkey-swot; Energy Efficient Industry (2014[15]), *Our Project*, Energy Efficient Industry website, http://enerjiverimlisanayi.com/en/icerik/projemiz/41; Government of Turkey (n.d.[16]), Invest in Turkey, http://www.invest.gov.tr/en US/investmentguide/investorsguide/Pages/SpecialInvestmentZones.aspx.

Financial incentives are rarely used to support SME greening in the region

Once SMEs decide to adopt environmentally friendly practices, they then face some difficult financial options. First, there are very few options generally in the region and, second, the costs of capital for environmental loans are high – reflecting the high risk of borrowing for green investments (OECD, 2018[4]).

Financial incentives for SME greening are still non-existent in the WBT region, with the exception of Turkey and, to a limited extent, Serbia. The new SME strategies of the Republika Srpska in Bosnia and Herzegovina, Montenegro and North Macedonia foresee the introduction of financial incentives, but what type of incentives, and how they will be implemented, remain unclear.

Turkey has developed a range of financial incentives to support SME greening. One of its key goals is to improve SMEs' energy efficiency. To this end, KOSGEB provides financial support to companies through various programmes. One of them – the Efficiency Increasing Programme – is run in co-operation with the Ministry of Energy and Natural Resources' Directorate, General Renewable Energy. Companies with energy consumption over a certain threshold can apply to the programme, which will support their energy efficiency projects by up to 30%, to an upper limit of TRY 1 million (Turkish lira; around EUR 170 000). Voluntary Agreements is another programme, under which the government covers 20% of companies' energy costs, up to TRY 200 000 annually (around EUR 33 100), on the condition that they reduce their energy costs by 10% of their five-year consumption average. KOSGEB also provides financing for SME energy efficiency audits and for consultancy and training costs under the General Support Programme. This support covers 50%, 60% or 70% of the costs, depending on the region, up to TRY 75 000 (around EUR 12 400). KOSGEB also provides financing for energy efficiency projects under the SME Development Support Programme, which covers between 60% and 80% of project costs. In addition to this, the government subsidises energy efficiency consultancy services for SMEs. Monitoring of these programmes is conducted regularly, while the impact of financial incentives on SME greening has not yet been carried out.

In Serbia, a new donor-based and one-off instrument, Green Innovation Vouchers, was launched in December 2017. The project was implemented by the EBRD and funded by the Austrian Delivering Resource Efficiency Investments programme. Green Innovation Vouchers are grants of up to EUR 20 000 (excluding value-added tax) and cover 90% of eligible research and development (R&D) service costs. This allows SMEs to develop new products, services and processes, or innovate existing ones, in order to increase resource efficiency; thus supporting the transition to the green economy. Four years after the previous Fund for Environmental Protection was shut down, the Serbian Green Fund, a government fund to support environmental projects, was set up at the beginning of 2017. However, it focuses on large infrastructure projects, and offers no incentives for SMEs. The situation is quite similar in the rest of the region – environmental funds provide financial support to local municipalities and large companies, while SMEs are usually beyond their scope.

Regulatory instruments are almost non-existent in the region

Regulatory instruments can be useful for reducing the administrative burden on SMEs of complying with environmental standards and rules. Smaller businesses, which often have limited in-house regulatory capacity, can benefit from a standardised, rules-based approach to setting environmental requirements (OECD, 2018[4]). Regulatory instruments also help to sustain balance among competing resources and to protect the environment.

Appropriate instruments include simplified permit procedures and rules, reduced inspection frequency for low-risk facilities, technology standards (e.g. best-available technology) and performance standards (limits on air emissions, water effluents or noise levels; requirements for material recycling and solid waste management regulations; and energy efficiency or fuel economy standards).

As the previous assessment found, the WBT economies do not provide regulatory instruments to simplify permit procedures or reduce the inspection frequency of low-risk facilities. Turkey alone offers performance standards – requirements for recycling the material used for packaging. The Regulation on Packaging Waste Control identifies how much of each material used by manufacturers should be recycled: 54% of glass, plastic, metal and paper packages. Under this regulation, authorised organisations and municipalities collect and recycle the packaging waste. Companies need to be a member of these authorised organisations and have to pay membership fees to reuse these recycled materials.

In the Western Balkans, only the Montenegrin National Strategy for Sustainable Development includes some elements of a circular economy and related regulatory instruments, but the strategy sets no timeframe for these actions, and information on their implementation remains limited.

Public procurement is starting to be used to stimulate green products and services by SMEs

Where there is limited demand for green products and services, SMEs may also need additional support. Green public procurement can be used to boost demand for green products in markets where private consumer demand is insufficient, and can also increase their market acceptance by demonstrating their commercial feasibility. Despite its effectiveness as a policy instrument, it should be noted that the demand-pull effect of green public procurement is likely to be limited in the small WBT economies, with the exception of Turkey.

The region has started to make attempts to capitalise on green public procurement. Montenegro's MSME strategy envisions introducing environmental impact criteria in public procurement. Turkey is introducing green public procurement policies through the promotion of the purchase of goods and services with minimum energy efficiency criteria. However, these are still at an initial stage. In Serbia, environmental policies are recognised in the law on public procurement, but in practice this aspect of public procurement is not being implemented.

The way forward for incentives and instruments for SME greening

Even though SME greening policies seem to have gained some momentum in the WBT region since the last assessment, they are still not fully backed up by regulatory instruments and financial incentives for SMEs to adopt environmentally friendly practices. Going forward, governments are invited to:

- **Step up efforts to provide advice and guidance to SMEs on green practices.** These activities should include disseminating guidance on good practices and conducting outreach programmes to promote eco-friendly practices. Workshops, training, industry fairs, distributing successful case studies and fostering co-operation over environmental issues could be particularly successful in disseminating information and generic advice on how to apply green practices. Targeted, concise, user-friendly guides focusing on the business benefits of adopting environmentally friendly practices can be another very effective information-based tool (OECD, 2018[4]). In practice, one of the most important aspects of these information-based assistance programmes is to concentrate all the information (advice, informational and methodological materials) in one place. These activities are not very budget-intensive, but they can have a strong impact. Ireland's experience could offer a blueprint for how to effectively go about such activities and enhance SMEs' resource efficiency (see Box 11.3).

Box 11.3. Green Business Ireland: raising awareness of greening advantages to SMEs and enhancing resource efficiency

In 2008 the Environmental Protection Agency of Ireland formed the Green Business Programme under its National Waste Prevention Programme. Its aim was to deliver substantive resource efficiency improvements and cost savings through waste prevention and reductions in water and energy consumption. The programme is managed by the Clean Technology Centre (CTC) at the Cork Institute of Technology. The CTC, established in 1994, has a team of experts in resource efficiency and waste prevention.

The Green Business Programme has provided a range of services to help SMEs increase their resource efficiency: site visits, guidance documents, online tools, seminars and community networking. By registering at www.greenbusiness.ie and using the online audit tools, users can identify opportunities for implementing resource efficiency in their business and identify where cost savings could be made. Businesses can request a site visit, during which a Green Business Advisor will visit their premises and identify free and low-cost measures that will lead to cost savings. The service is free of charge, and operated by the CTC on behalf of the Environmental Protection Agency.

Between 2008 and 2018, with an annual budget of EUR 350 000, the Green Business Programme has visited 400 enterprises from a range of sectors (food processing, banking, public sector, small retailers) and identified an estimated around EUR 15 million of savings for its member enterprises (EUR 8.8 million in energy, EUR 3.8 million in waste and EUR 2.8 million in water). The individual savings identified ranged from EUR 2 000 to EUR 200 000.

Some of the lessons learned from the experience of Green Business is that SMEs are not monitoring their utility costs and are unaware of the extent of waste. In addition, they are unaware of the opportunities to reduce waste at no cost or low cost as well as the opportunities to improve their bottom line and enhance their image. They often also have no awareness of the assistance available to improve their environmental performance.

The example of Green Business demonstrates how a cost-efficient and effective support mechanism can be designed, involving co-operation between the government and academia, which brings various benefits just by identifying potential savings that businesses are usually unaware of. The model underlines the importance of providing advice and guidance to SMEs to “go green”.

Sources: Green Business Ireland (2019[17]), *Green Business Tree*, http://greenbusiness.ie/; (Clean Technology Centre, 2019[18]); EPA (2014[19]), Green Business Initiative, http://www.epa.ie/waste/nwpp/gbi/#.W1opW_ZuI2w; EPA (2019[20]), *National Waste Prevention Programme*, http://www.epa.ie/waste/nwpp/.

- **Introduce regulatory instruments into the SME greening policy mix.** Awareness-raising activities and programmes offering advice and guidance on “going green” should be underpinned by regulatory instruments tailored to the specific context of each economy. First, regulatory requirements for environmental investments by SMEs need to be simplified and streamlined. Governments could introduce standardised permits to reduce the regulatory burden of such investments (OECD, 2018[4]). The frequency and scope of inspections, monitoring and reporting could also be reduced for those SMEs with a more successful environmental record, or which have adopted environmental management systems. For instance, in Norway companies with a certified EMS have less frequent inspections, whereas in France such companies are totally exempt from compliance inspections. Similarly, in Korea, companies with better environmental performance face less frequent routine inspections (OECD, 2018[4]).
- **Address financial barriers to SMEs’ greening efforts**. The WBT governments could introduce dedicated loan guarantee schemes to support the approval of green project loans and encourage lenders to make their loan terms more attractive to borrowers. If a client defaults on a loan for green investments, these guarantees would partly compensate lenders. There are already loan guarantee schemes in the region (see Chapter 7 on access to finance for SMEs), but none of them give priority to green projects. Therefore, legally the funds can be mandated to dedicate a percentage of total financing available only for “green projects”. In light of the recent legacy of bad loans and conservative bank lending in the region, loan guarantee schemes could significantly increase the current supply of loans for SME greening.

  In addition to loan guarantee schemes, policy makers could also develop programmes that would allow loans to be converted into grants when the expected environmental performance is demonstrated (OECD, 2018[4]). Similarly, governments could facilitate access to finance through loans with reduced interest rates for environmental investments. These loans could be conditional on commitments to go beyond regulatory requirements and on demonstrating satisfactory environmental performance by SMEs. For instance, in Georgia’s state programme “Produce in Georgia”, Enterprise Georgia[9] provides 10% co-financing for bank loan interest rates and a partial collateral guarantee of up to 50% for the first 48 months, among other services (UNIDO and OECD, 2018[21]). Supporting soft loans or interest rate subsidies should be explored with a critical eye, since there is a risk of lending institutions keeping interest rates high if expectations of subsidies leave no incentive to lower them (OECD, 2018[4]). Governments can also offer direct subsidies to SMEs to introduce environmentally friendly technologies, or fiscal measures such as favourable tax policies and exemptions on import charges for investments in green equipment.

- **Fill the funding gap through the support of state investment banks to SME greening.** Given the relatively limited market presence of commercial banks in the Western Balkans in the area of green investment, measures facilitating SME access to finance could also be introduced through state investment banks. Such banks have recently risen to become lead funders of mission-oriented innovation in various OECD countries' agendas (Mazzucato and Penna, 2016[22]), and they can also be influential drivers of "green growth", bridging the funding gap left by commercial banks. Germany's public bank Kreditanstalt für Wiederaufbau and France's Banque publique d'investissement (Bpifrance) are two good examples (Box 11.4).

Box 11.4. Financial support for green investments: France's Banque publique d'investissement

Banque publique d'investissement (Bpifrance) is a French investment bank formed as a joint venture of two public entities: Caisse des dépôts et consignations and EPIC BPI-Groupe.

Bpifrance's green loan (*Prêt Vert*) provides up to EUR 3 million over seven years to SMEs at a subsidised interest rate, with no guarantees made against company assets. The loans are used to finance investments in more resource-efficient production or the development of eco-efficient products, including investments in intangible assets (R&D, certifications, etc.) and optimisation. The loan is co-financed by the SME's existing financial institution, at one "green euro" for every euro from another lender or equity investment in the company.

SMEs can also get smaller low-rate loans (*Prêt Eco-Energie*) of up to EUR 100 000 to improve energy efficiency, including lighting, heat and other electricity systems, on similar terms to green loans. Moreover, Bpifrance provides a range of other debt and equity green financing products for SMEs, such as equity financing (growth) for SME renewable energy developers; venture capital financing for green start-ups; and grants and reimbursable advances for R&D for innovative projects at early stages.

In addition to its financial services, Bpifrance also helps SMEs to better understand and implement sustainability strategies for their businesses, including dedicated advisory services to help them to self-diagnose their sustainability profiles (integrating environmental issues in business processes, product design, etc.) and define corresponding action plans. Bpifrance also engages in permanent shareholder dialogue with invested companies, in order to help them anticipate the opportunities that could result from a better assessment of environmental issues relevant for their business.

Source: UN Environment (2017[23]), *Mobilising Sustainable Finance for Small and Medium-Sized Enterprises: Reviewing Experience and Identifying Options in the G7.*

Conclusions

Overall, this assessment has demonstrated that the WBT region is moving forward with SME greening policy and developments have picked up pace. Nevertheless, progress remains uneven across economies and across different aspects of policy.

The biggest development is the introduction of SME greening measures and policies into SME strategies in almost the entire WBT region. The main emphases of the SME greening policies are on promoting resource efficiency and eco-innovation, as well as providing information and direct support to SMEs on how to undertake environmentally friendly actions. However, although environmental policies are generally well developed and increasingly address SMEs' specific needs, their implementation remains restricted – especially in the Western Balkans. This is mainly due to the unpredictability of funds, which results in frequent interruptions and delays in programme implementation; but it is also caused by the absence of designated institutions and administrative bodies to co-ordinate SME greening work. Another obstacle is the lack of instruments and incentives for SMEs to adopt environmentally friendly practices. Some financial incentives are starting to be introduced in the new SME strategies, but their full implementation is still lacking.

Addressing the recommendations presented in this chapter will help the WBT governments to support SMEs in their pursuit of environmentally friendly practices and business models, while at the same time increasing prospects for overall economic growth and sustainable development.

Notes

[1] In this SBA assessment cycle, in order to better understand how effective the SME policy implementation is and what its outcomes are, the assessment was complemented by private sector insights gathered through a set of interviews with the owners and managers of SMEs and representatives from chambers of commerce in the Western Balkans and Turkey (see Annex C for more details). In the context of Dimension 9, the aim was to understand the level of SMEs' awareness about current government programmes designed to encourage SMEs to improve their environmental performance, and ascertain the private sector's view of their quality. It was also important to discover if the various instruments and incentives did encourage SMEs to "go green" as envisaged, and which of the current services the SMEs find most efficient, as well as what other services SMEs would consider effective and supportive.

[2] Resource productivity is measured through three qualitative indicators that assess the existence and degree of implementation of frameworks which support resource productivity: 1) climate change adaptation and mitigation; 2) circular economy initiatives; and 3) municipal solid waste management.

[3] Even though there is no single, commonly used definition of the concept, the circular economy is generally regarded as one in which resources are used more efficiently throughout their life cycle by closing, extending and narrowing material loops to ultimately decouple the consumption of primary raw materials from economic growth. For further discussion on concepts including the circular economy, resource efficiency, secondary materials and decoupling see McCarthy, Dellink and Bibas (2018[11]), pp. 11-12, Box 1.

[4] In addition to the outcome indicators, the quantitative indicators selected under this policy dimension are also presented in Figure 11.3.

[5] The sample size was relatively small for some of the small Member States (Cyprus** Malta and Luxembourg) and most of the non-EU countries surveyed (Albania, Iceland, Montenegro, Moldova, North Macedonia and Serbia), particularly Albania, Moldova and Montenegro where, due to the nature of the economic sector, fewer than 100 businesses were interviewed. The survey was carried out by the TNS Political & Social Network in the 28 EU Member States, Albania, Iceland, Moldova, Montenegro, North Macedonia, Norway, Serbia, Turkey and the United States during 1-18 September 2015. Some 15 020 enterprises were interviewed via telephone (landline

and mobile phone) on behalf of the European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs.

** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

[6] Horizon 2020 is the biggest EU-funded research and innovation programme covering the period from 2014 to 2020. The overall objective of the programme is to ensure Europe produces world-class science, removes barriers to innovation and makes it easier for the public and private sectors to work together in delivering innovation. With nearly EUR 80 billion of funding, it promotes research and innovation by facilitating the commercialisation of innovative ideas from the lab to the market. In particular, Horizon 2020 provides grants to research and innovation projects through open and competitive calls for proposals. Legal entities from any country are eligible to submit project proposals to these calls. Participation from outside the European Union is explicitly encouraged.

[7] In Bosnia and Herzegovina, there are no institutions at the state level that are responsible for promoting a green economy. Strategies and action plans that include goals for a green economy are adopted at the entity level. The relevant entity institutions in this field are the Environmental Protection and Energy Efficiency Fund of the Republic of Srpska and the Environmental Fund of the Federation of Bosnia and Herzegovina. Environmental policies that target SMEs exist only in the Republika Srpska – these are included in its SME development strategy. For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

[8] For more information on the Scottish Circular Economy Business Network, see https://www.zerowastescotland.org.uk/circular-economy/scottish-network.

[9] For more information on the "Produce in Georgia" programme, see http://www.enterprisegeorgia.gov.ge/en/home.

References

Bütüner, H. (2014), *Organised Industrial Zones in Turkey: SWOT analysis*, Linkedin, http://www.linkedin.com/pulse/20141020214614-114102137-organized-industrial-zones-in-turkey-swot. [14]

Clean Technology Centre (2019), *Clean Technology Centre*, https://ctc-cork.ie/resources/guides. [18]

Conway, E. (2015), "Engaging small and medium-sized enterprises (SMEs) in the low carbon agenda", *Energy, Sustainability and Society*, Vol. 5/32, https://doi.org/10.1186/s13705-015-0060-x. [3]

EBRD (2016), *NØW - Near zero waste*, http://www.now-turkey.org/ (accessed on 6 March 2019). [12]

EC (2018), *Flash Eurobarometer 456: SMEs, Resource Efficiency and Green Markets*, Directorate-General for Communication, European Commission, Brussels, http://data.europa.eu/euodp/en/data/dataset/S2151_456_ENG. [5]

EC (2017), *SBA Fact Sheets: Albania, Montenegro, North Macedonia, Serbia and Turkey*, European Commission, Brussels. [8]

EC (2015), *Flash Eurobarometer 426: SMEs, Resource Efficiency and Green Markets*, Directorate-General for Communication, European Commission, Brussels. [9]

EC (2009), *Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity*, European Commission, Brussels, https://eur-lex.europa.eu/eli/dir/2009/72/oj. [10]

EC (2008), *Think Small First: A Small Business Act for Europe*, European Commission, Luxembourg. [6]

Energy Efficient Industry (2014), *Our Project*, Energy Efficient Industry website, http://enerjiverimlisanayi.com/en/icerik/projemiz/41. [15]

EPA (2019), *National Waste Prevention Programme*, http://www.epa.ie/waste/nwpp/. [20]

EPA (2014), *Green Business Initiative*, http://www.epa.ie/waste/nwpp/gbi/#.W1opW_ZuI2w. [19]

Government of Turkey (n.d.), *Invest in Turkey*, http://www.invest.gov.tr/en US/investmentguide/investorsguide/Pages/SpecialInvestmentZones.aspx. [16]

Green Business Ireland (2019), *Green Business Tree*, http://greenbusiness.ie/. [17]

Mazzucato, M. and C. Penna (2016), "The rise of mission-oriented state investment banks: The cases of Germany's KfW and Brazil's BNDES", *SPRU Working Paper Series*, Science Policy Research Unit, Brighton, http://dx.doi.org/10.2139/ssrn.2744613. [22]

McCarthy, A., R. Dellink and R. Bibas (2018), "The Macroeconomics of the Circular Economy Transition: A Critical Review of Modelling Approaches", *OECD Environment Working Papers*, No. 130, OECD Publishing, Paris, https://dx.doi.org/10.1787/af983f9a-en. [11]

Moore, S. (2009), "Strategy development in small and medium sized enterprises for sustainability and increased value creation", *Journal of Cleaner Production*, Vol. 17/2, pp. 276-282. [2]

Near Zero Waste (2018), *Turkey Materials Marketplace*, Circular Change website, http://www.circularchange.com/wp-content/uploads/2017/05/Astrid-Motta-2.pdf. [24]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, Competitiveness and Private Sector Development, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264298576-en. [7]

OECD (2018), *Environmental Policy Toolkit for SME Greening in EU Eastern Partnership Countries*, OECD Green Growth Studies, OECD Publishing, Paris, https://doi.org/10.1787/9789264293199-en. [4]

Sáez-Martínez, F., C. Díaz-García and Á. González-Moreno (2016), "Factors promoting environmental responsibility in European SMEs: The effect on performance", *Sustainability*, Vol. 8/9, p. 898, https://www.mdpi.com/2071-1050/8/9/898. [1]

TMM (2018), *Turkey Materials Marketplace website*, http://turkey.materialsmarketplace.org/. [13]

UN Environment (2017), *Mobilising Sustainable Finance for Small and Medium-Sized Enterprises: Reviewing Experience and Identifying Options in the G7*, UN Environment, Nairobi. [23]

UNIDO and OECD (2018), *Financial Resource Efficient and Cleaner Production by SMEs in the EU Eastern Partnership Countries: a Stakeholders' Guide*, EaP GREEN Publication, http://www.green-economies-eap.org. [21]

Further reading

Calogirou C., et al. (2010), *SMEs and the Environment in the European Union*, PLANET SA and Danish Technological Institute, DG Enterprise and Industry, European Commission, Brussels.

Ellen MacArthur Foundation (2013), *Towards a Circular Economy: Business Rationale for an Accelerated Transition,* https://www.ellenmacarthurfoundation.org.

EC (2015), *Closing the Loop: An EU Action Plan for the Circular Economy*, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, European Commission, Brussels.

Nulkar, G. (2014), "SMEs and environmental performance: A framework for green business strategies", *Procedia-Social and Behavioural Sciences*, Vol. 133, pp. 130-140, https://doi.org/10.1016/j.sbspro.2014.04.177.

OECD (2017), *The Macroeconomics of the Circular Economy Transition: A Critical Review of Modelling Approaches*, Working Party on Resource Productivity and Waste, Working Party on Integrating Environmental and Economic Policies, OECD, Paris.

Rizos V. et al. (2015), *The Circular Economy: Barriers and Opportunities for SMEs,* CEPS Working Document, No. 412, Centre for European Policy Studies, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2664489.

Thomä J. et al. (2015) *Green SMEs and Access to Finance: The Role of Banking Diversity,* 2 Degrees Investing Initiative, UNEP Inquiry, UNEP.

Winans, K., Kendall, A. and Deng, H. (2017), "The history and current applications of the circular economy concept", *Renewable and Sustainable Energy Reviews*, Vol. 68, pp. 825-833.

Chapter 12. Internationalisation of SMEs (Dimension 10) in the Western Balkans and Turkey

This chapter assesses the performance of the Western Balkans and Turkey in supporting the internationalisation of small and medium-sized enterprises (SMEs). It starts by providing an overview of the assessment framework and progress since the last assessment in 2016. It then analyses the three sub-dimensions of Dimension 10: 1) export promotion, which explores government support and initiatives to help SMEs export their goods and services; 2) integration of SMEs into global value chains, which asks whether governments have planned and implemented programmes to help SMEs integrate globally; and 3) promoting the use of e-commerce, which examines the economies' frameworks for facilitating SMEs' engagement with the digital economy. Each sub-dimension section makes specific recommendations for increasing the capacity and efficiency of systems to support SME internationalisation in the Western Balkans and Turkey

Key findings

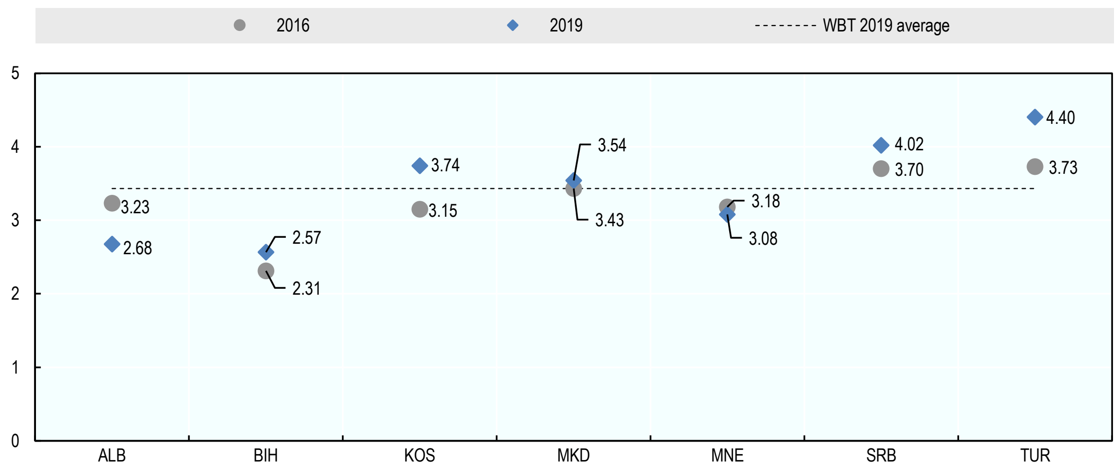
- **All the WBT economies have dedicated institutions to carry out export promotion programmes**. However, in just over half, the provision of export promotion programmes is hampered to some extent by resource constraints on these bodies. Moreover, there is room for increasing the uptake of export promotion programmes across the region, since budgets earmarked for them are not always fully used.
- **Almost all economies have monitoring mechanisms in place for their export promotion programmes and export promotion agencies**. The economies have also improved their collection of data by enterprise size, as nearly all of them now regularly collect data recording SME-specific imports and exports.
- **All the economies now address SME integration in global value chains in their relevant strategic documents and all have programmes planned.** Nonetheless, only five of the WBT economies have operational programmes with mobilised budgets.
- **In most WBT economies, independent evaluations are not carried out of targets achieved and the extent to which export promotion services are efficient or cost-effective in enhancing SMEs' internationalisation**. Albania is the only economy that has benefitted from an independent review of its export promotion activities, however.
- **During the assessment period, only Turkey implemented a programme to encourage SMEs' uptake of e-commerce.** Four of the WBT economies have an established institution responsible for e-commerce promotion. Four economies also have websites dedicated to providing information on the opportunities for and challenges of e-commerce.
- **Legal frameworks for e-payments and consumer protection in e-commerce are in place across all WBT economies**. However, not all of the economies' legal frameworks are fully aligned with the European Union's.

Comparison with the 2016 assessment scores

Since the last assessment, Kosovo* and Turkey have improved the most in their promotion of SME internationalisation (Figure 12.1). While Bosnia and Herzegovina has progressed, its score is still the lowest of all the assessed economies. Albania and Montenegro have made the least progress between 2016 and 2019.

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Figure 12.1. Overall scores for Dimension 10 (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

The previous assessment – the *2016 SME Policy Index* (OECD, 2016[11]) – made a number of recommendations to the WBT economies for internationalising SMEs (Table 12.1). Regulatory trade barriers remain a key impediment to trade facilitation. Progress has been strongest in increasing support for export promotion programmes. Improvement has been more incremental in developing programmes supporting SME integration into global value chains, while monitoring and evaluation remains underdeveloped.

Table 12.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 10

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Reduce regulatory barriers to trade	The WBT economies have made some progress on this 2016 recommendation. Between 2014 and 2017, the costs of importing and exporting due to border compliance remained stagnant or even increased across most of the WBT economies. According to the OECD Trade Facilitation Indicators, most of the WBT economies are challenged in terms of internal and external border agency co-operation. Yet the areas of improvement heavily outweigh the areas of degradation, except for the Republic of North Macedonia. For a detailed summary of the performance of the WBT economies as measured by the OECD Trade Facilitation Indicators between 2015 and 2017, consult Trade facilitation performance.	Moderate
Develop and strengthen export promotion activities and strategies	During the assessment period, Montenegro and North Macedonia adopted new national SME strategies, and Kosovo has prepared a new Private Sector Development Strategy, all touching upon export promotion. Economies have increased the financial support mechanisms available	Moderate

	to SMEs for export promotion, and programmes supporting export promotion for SMEs have become operational. However, Montenegro relied almost exclusively on the Enterprise Europe Network to carry out its export promotion activities.	
Monitor and evaluate existing initiatives	Most economies have not yet moved on from annual reporting towards evaluating their existing initiatives in a way that accurately assesses whether they are effective and tailored to SMEs' needs. Since 2016, only Albania has benefitted from an independent evaluation of the effectiveness of its export promotion programmes (see Chapter 5 on support services for SMEs).	Limited
Provide trade finance tools for exporting SMEs	Trade financing tools have become more widely available in all economies. These include export credit guarantees, export credit insurance and export working capital to help meet the needs of exporting SMEs.	Advanced
Establish programmes to support the integration of SMEs into global value chains	Whereas no economies had tools in place to support SME integration into global value chains in 2016, all of them have now introduced programmes to address this, whether by generating support for industrial clusters, industrial zones, and promoting business linkages, or supplier upgrading schemes. Bosnia and Herzegovina and Montenegro continue to implement cluster support programmes, while Kosovo has established one cluster in the metal industry and renewable energy sector (KIMERK). Serbia and Turkey have developed the most robust programmes to assist SMEs in upgrading their positioning in global value chains by offering schemes for financial support to upgrade machinery.	Moderate

Introduction

The successful internationalisation of SMEs can increase their productivity, accelerate their innovation and enhance their competitiveness. Given that most of the economies of the Western Balkans are relatively small, access to global markets can support SMEs' long-term viability. Their market reach can be broadened and strengthened through exposing them to international competition and greater economies of scale.

Compared to large firms, SMEs face a number of unique internal and external barriers to internationalisation. Many of these are related to the relatively higher fixed costs for smaller firms of several aspects of conducting business. Internal barriers include information, human resources, finance, product and prices, and distribution and logistics. Externally, SMEs are impeded by procedural barriers, government customer and foreign competitor barriers, and business environment barriers. Government support can help SMEs to overcome these economic and technical hurdles inherent to small enterprises and allow them to access foreign markets more easily (OECD, 2018[2]; Asian Development Bank, 2015[3]).

Government support to SMEs in the areas of export promotion, integration into global value chains and e-commerce can help SMEs to internationalise in a way that enhances their visibility, optimises their productivity and harmonises their activities with the growing digital economy.

Facilitating SMEs' access to and competitiveness in international markets requires removing barriers to trade, particularly those that impose fixed costs; increasing access to the information necessary for SMEs to compete and succeed on the international playing field; providing logistical support to establish contacts with external buyers and sellers; and assisting in developing products and services that meet international market demand. This also includes providing financial and technical support for exporting activities and procurements/acquisitions of technology in order to increase SMEs' productive capabilities and quality to upgrade their positioning in supply chains.

Furthermore, SME internationalisation policies should aim to promote targeted programmes that comprehensively assess the needs and potential of SMEs by identifying the specific approaches through which they can engage in exports, become more integrated into global value chains, and participate in e-commerce. This requires in-depth needs analyses that take into consideration the core competences of SMEs as well as the opportunities for linkages into global value chains, whether via larger domestic exporters or multinational enterprises (MNEs).

Assessment framework

Structure

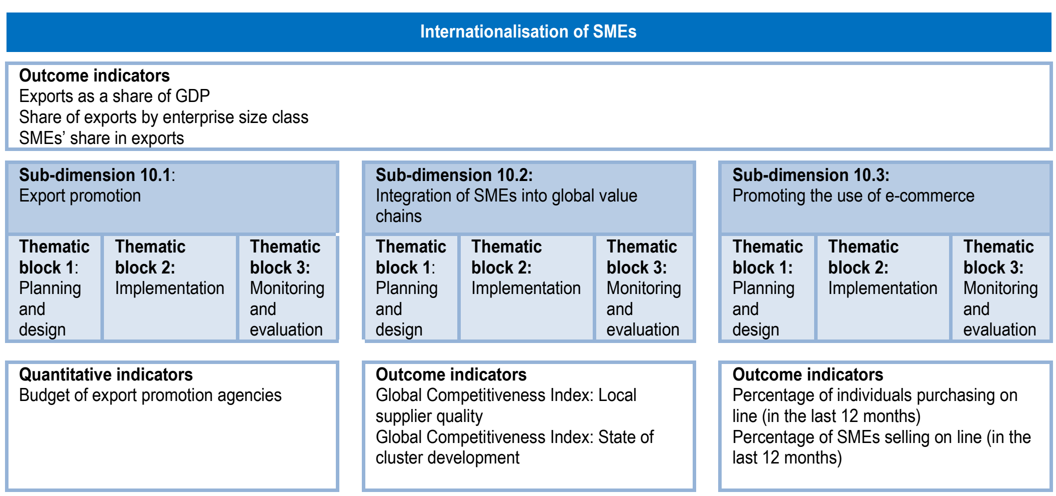
The assessment framework for Dimension 10 consists of three sub-dimensions:

- **Sub-dimension 10.1: Export promotion** assesses governments' support to SMEs for export promotion, examines whether governments have operational export promotion programmes in place that target SMEs and considers the provision of services to help SMEs penetrate international markets.

- **Sub-dimension 10.2: Integration of SMEs into global value chains** evaluates governments' support for SMEs wanting to integrate into global value chains, as well as programmes to promote linkages with larger exporting domestic firms or MNEs.
- **Sub-dimension 10.3: Promoting the use of e-commerce** examines government promotion of the use of e-commerce by SMEs. It considers the prevalence of legal frameworks to secure payments and consumer protection on line, and further analyses the supports in place to facilitate SME uptake of e-commerce.

Figure 12.2 shows how these three sub-dimensions make up the dimension's assessment framework. Each sub-dimension assesses the performance in three thematic blocks: 1) planning and design; 2) implementation; and 3) monitoring and evaluation.

Figure 12.2. Assessment framework for Dimension 10: Internationalisation of SMEs



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

The assessment was carried out by collecting qualitative data with the help of questionnaires filled out by governments, as well as face-to-face interviews undertaken with the owners and managers of SMEs.[1] Alongside these qualitative inputs, quantitative data on certain indicators – provided by the economies' statistical offices, relevant ministries and SME agencies – formed an integral part of this assessment. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Key methodological changes to the assessment framework

Since the 2016 assessment, several changes have been introduced to the assessment framework (Table 12.2). The 2019 assessment now includes a new sub-dimension on the use of e-commerce to incorporate the technological tools that can rapidly accelerate SME efficiency and internationalisation in today's digital economy.

Furthermore, whereas the previous edition of the SME Policy Index considered trading performance as a sub-dimension, it is no longer scored as a sub-dimension in itself, but its content is included in Trade facilitation performance.

Consistent with the change to the weighting of scores across all the other dimensions in this assessment round (see the Policy Framework and Assessment Process chapter and Annex A), the weight allocated to the implementation thematic block has been increased by 5 percentage points. This alteration to the scoring methodology highlights the urgent need to move forward to put strategies into action.

Table 12.2. Key changes in the composition of Dimension 10

Sub-dimension	Key changes since the 2016 assessment
Sub-dimension 10.3: Promoting the use of e-commerce	This new sub-dimension on e-commerce has been added to the assessment.
Performance analysis	The previous sub-dimension on trading performance has been eliminated. The content matter is now analysed under the performance section.
All sub-dimensions	The weights of the thematic blocks in the overall scores have been altered. Greater focus has been placed on implementation (5% increase in the allocated weight).

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

Other sources of information

The section below on performance analysis also draws upon data from the World Economic Forum's *Global Competitiveness Report* (WEF, 2017[4]) and the World Bank's *Doing Business Report* (World Bank, 2017[5]), while key indicators from these reports have also been used to complement the analysis in the relevant sub-dimensions.

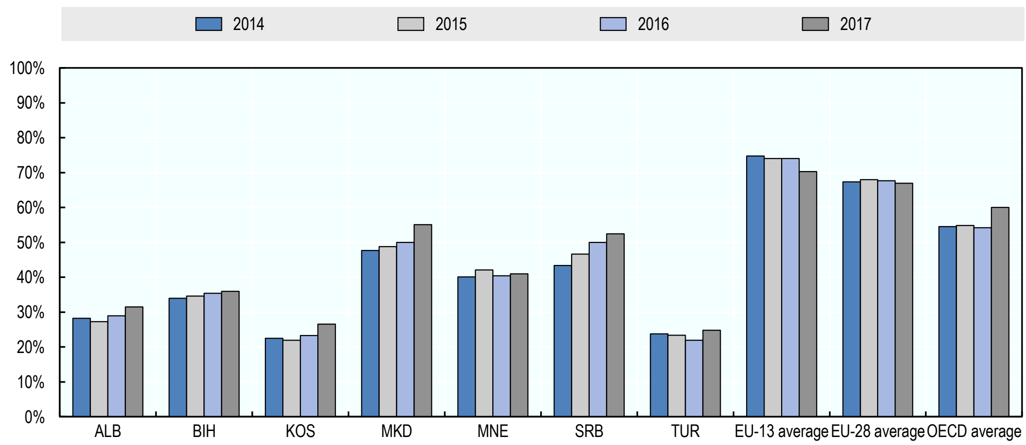
Analysis

Performance in internationalisation of SMEs

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension (see Figure 12.2) are designed to shed light on the WBT economies' export performance in general terms. This section draws on those outcome indicators.

It begins by comparing the WBT economies' shares of exports of goods and services in gross domestic product (GDP) with those of the European Union (EU) and OECD economies (Figure 12.3). Among the WBT economies, North Macedonia had the highest rate of exports as a share of GDP in 2017 (55%), while Turkey had the lowest rate (25%). While exports relative to GDP increased in all WBT economies, Serbia (9 percentage points) and North Macedonia (7.5 percentage points) witnessed the strongest growth between 2014 and 2017. However, exports as a percentage of GDP were higher in 2017, on average, in the EU-13, EU-28 and OECD than they were in the WBT economies.

Figure 12.3. Exports as a percentage of GDP (2014-17)

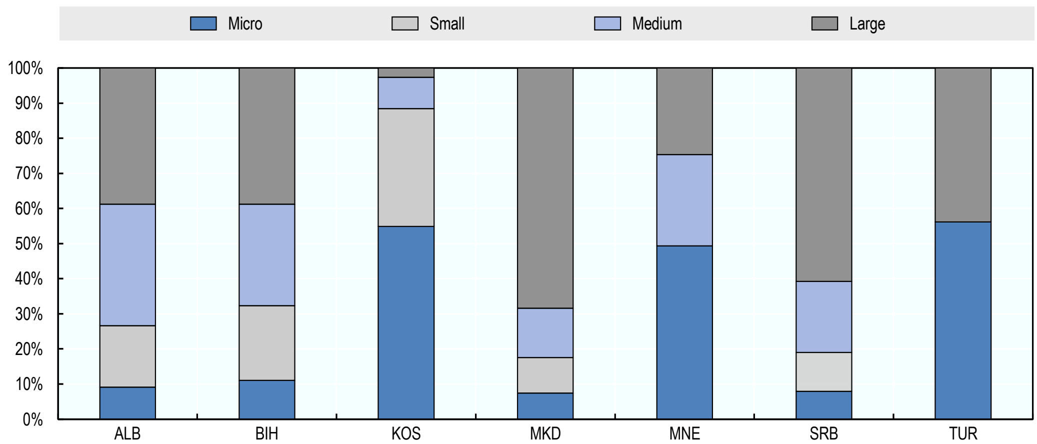


Note: OECD and EU averages are calculated as simple averages. Due to unavailability of data, the 2017 EU averages do not include Malta. Due to unavailability of data, the OECD average does not include Israel, Japan, New Zealand and the United States. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
Sources: Statistical offices, ministries and SME agencies of the Western Balkan economies and Turkey.

StatLink http://dx.doi.org/10.1787/888933937698

Large enterprises, i.e. those with more than 250 employees, are the size class with the greatest share of exports in all the WBT economies except Kosovo and Montenegro (Figure 12.4).

Figure 12.4. Share of exports by enterprise size class (2017)

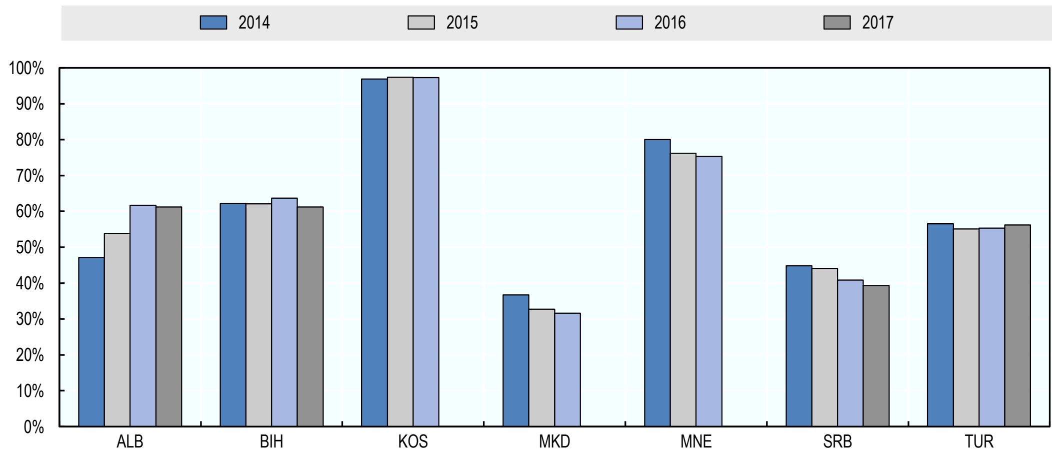


Note: For Bosnia and Herzegovina (BiH) data do not include unincorporated enterprises. Due to unavailability of state-level data, data for BiH have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. Data for Kosovo, Montenegro and North Macedonia are for 2016. Data for Albania are based on the Albanian size class definitions. For Montenegro, disaggregated data for micro and small enterprises were not available. For Turkey, disaggregated data for micro, small and medium-sized enterprises were not available.
Sources: Statistical offices, ministries and SME agencies of the Western Balkan economies and Turkey.

StatLink http://dx.doi.org/10.1787/888933937717

SMEs' share of exports remained relatively constant throughout the region during 2014-17 except in Albania, whose share increased from 47% to 61% (Figure 12.5). Among the WBT economies, SMEs' share of exports was highest in Kosovo (97% in 2016), and lowest in North Macedonia (32% in 2016).

Figure 12.5. SMEs' share of exports (2014-17)



Note: SMEs are defined as businesses with fewer than 250 employees. For Bosnia and Herzegovina (BiH) data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by averaging the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. Due to unavailability of data from the Republika Srpska for 2014 and 2015, the data of Bosnia and Herzegovina depicted in the figure for those two years only reflect the data of the Federation of Bosnia and Herzegovina. 2017 data for Kosovo, Montenegro and North Macedonia are not available. Data for Albania are based on the Albanian size class definitions.
Sources: Statistical offices, ministries and SME agencies of the Western Balkan economies and Turkey.

StatLink http://dx.doi.org/10.1787/888933937736

Although the share of exports by SMEs as a whole remained relatively constant throughout the region between 2014 and 2017, SMEs' exports have the potential to grow – both in absolute value and as a share of total exports – in light of the deepening regional integration. At the Trieste Summit of 12 July 2017, the leaders of the six Western Balkan economies endorsed the *Multi-annual Action Plan for a Regional Economic Area (REA) in the Western Balkans Six*, which puts forward a strategic joint agenda to further regional economic co-operation (MAP, 2017[6]). If fully implemented, this promising initiative for the region could significantly facilitate SMEs' capacity to internationalise.

Export promotion (Sub-dimension 10.1)

SMEs are often at a disadvantage when exporting compared to large firms due to their limited productive capacities and smaller networks. Market failures arise when lack of information leads SMEs to underestimate the benefits of exporting, or to overestimate the barriers, resulting in lower participation in exports than would otherwise be the case (BIS / DFID, 2011[7]). The successful implementation of government export promotion strategies can help SMEs boost their productivity and become better integrated into global value chains (OECD, 2016[8]).

This section assesses governments' support services for SMEs with export potential. It analyses the design and planning of export promotion programmes in accordance with national SME strategies, and assesses the implementation of services in areas such as trade policy and commercial information, representation at major trade fairs, marketing, product development and training, provision of financial support for export activities, and the organisation of export promotion events for SMEs. Finally, it considers the extent to which these programmes and activities are monitored and evaluated.

Overall, all the seven economies perform relatively well in this sub-dimension (Table 12.3). Most of the progress made during this assessment period can be traced to the proliferation and implementation of programmes and services for export promotion. In the case of Bosnia and Herzegovina and Montenegro, the provision of export promotion programmes is hampered by resource-constrained agencies, and relatively weak monitoring and evaluation practices.

Table 12.3. Scores for Sub-dimension 10.1: Export promotion

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	5.00	4.33	5.00	5.00	5.00	4.67	5.00	**4.86**
Implementation	4.29	3.70	4.81	4.06	3.12	4.91	4.76	**4.24**
Monitoring and evaluation	3.71	2.19	3.57	2.86	1.57	3.71	3.43	**3.01**
Weighted average	**4.39**	**3.59**	**4.62**	**4.10**	**3.37**	**4.60**	**4.57**	**4.18**

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

National SME strategies all include export promotion

All the WBT economies have government export promotion programmes in place which support SMEs and have links to national SME strategies or an equivalent document. While most economies do not have SME-specific export promotion programmes by name, they support export promotion for SMEs through their activities and include SME export promotion objectives in their relevant strategies (Table 12.4).

Table 12.4. Main national strategies covering export promotion

Economy	Relevant national strategy
Albania	Business and Investment Development Strategy 2014-2020
Bosnia and Herzegovina	*Federation of Bosnia and Herzegovina:* Development of Small and Medium Enterprises in the Federation of Bosnia and Herzegovina 2009-2018 *Republika Srpska:* Strategy for the Development of Small and Medium Enterprises 2016-2020 Foreign Investment Encouragement Strategy 2016-2020
Kosovo	Private Sector Development Strategy 2018-2022 (still a draft at the time of writing)
Montenegro	Strategy for the Development of Micro, Small and Medium-Sized Enterprises 2018-2022
North Macedonia	National Small and Medium Enterprise Strategy 2018-2023
Serbia	SME Development Strategy 2015-2020
Turkey	SME Strategy 2015-2018 Export Strategy 2023 The Industrial Strategy of 2015-2018 The e-Export strategy

All the WBT economies consulted the private sector during the design and development of their export promotion programmes. Formal consultations in which the proceedings were recorded have been held in all the economies except Serbia, which held continuous informal consultations through its Chamber of Commerce in creating its pilot programme for export promotion. However, as both the private sector and government representatives noted, institutional co-ordination in the planning and design of programmes remains weak in Bosnia and Herzegovina.

Despite the existence of regular consultations, the interviews with SMEs conducted for this assessment indicate that they still do not feel that their interests are adequately taken into consideration in the planning and design of export promotion programmes, resulting in overly general programmes that are not sufficiently tailored to their needs. Therefore, the effectiveness of consultations held with the private sector across the WBT economies could be further improved by making sure more representative groups of SMEs are included.

Limited staff and funds hinder comprehensive export promotion activities

Export promotion agencies are important vehicles for boosting SMEs' capacity to export. Their design, funding and collaboration with the private sector can have a significant impact on their capacity to promote exports successfully (see Box 12.1).

Box 12.1. Evidence for the impact of export promotion agencies on exports

The seminal paper "Export promotion agencies: Do they work?" demonstrated that export promotion agencies (EPAs) have a statistically significant impact on exports and that their services can be important in overcoming foreign trade barriers and solving asymmetric information problems associated with exports (Lederman, Olarreaga and Payton, 2010[9]). A related group of researchers extended this research to shed light on the factors which lead to successful export promotion programmes. The resulting report, "Export promotion: What works?" (Sperlich, Trachsel and Olarreaga, 2017[10]) merges information from three rounds of surveys conducted by the World Bank and International Trade Centre on EPAs' budgets, sources of funding, governance, and activities over 2005-14. The surveys gathered responses from 94 EPAs and allowed for an analysis of each national EPA budget, sources of funding, governance, and activities.

Main findings

The main findings of this longitudinal study highlight the factors that make some EPAs successful in stimulating their economies' exports:

- A 1% increase in export promotion budgets generates an average increase in exports of between 0.046 and 0.076%.
- Initially, increases in the share of EPAs' funding coming from user fees tend to increase the impact of export promotion on exports, but when the share of funding from user fees is very high, further increases marginally decrease export returns.
- Spending a larger share of the budget on companies which do not yet export initially increases marginal export returns, but reduces them in the longer run.
- Focusing on established exporters rather than occasional exporters increases marginal export returns.
- Targeting small firms rather than large and medium-sized ones reduces marginal export returns.
- Having a larger share of the executive board from the private sector increases marginal export returns.
- Targeting a few sectors, firms or destinations rather than promoting all sectors and destinations increases marginal export returns.

Conclusion

Taken together, the findings from these linked studies evaluate the effectiveness and identify the successful characteristics of EPAs. Governments would do well to take these findings into consideration in the strategic design and dedication of budgeting for their EPAs.

Sources: Lederman, Olarreaga and Payton (2010[9]), "Export promotion agencies: Do they work?", *Journal of Development Economics*, https://doi.org/10.1016/j.jdeveco.2009.09.003; Sperlich, Trachsel and Olarreaga (2017[10]), "Export promotion: What works?", www.ferdi.fr/sites/www.ferdi.fr/files/publication/fichiers/p184_ferdi-_olarreaga-sperlich-trachsel_0.pdf.

There are dedicated institutions carrying out export promotion programmes in all the WBT economies. However, the design and implementation of programmes vary across the region, and in some cases are greatly hindered because the export promotion agencies either do not have the autonomy to decide how to allocate their budget and manage their human resources, or are insufficiently funded.

Of all the WBT economies, Serbia and Turkey's export promotion institutions are the most appropriately staffed and funded. The Serbian Development Agency (RAS) has been responsible for export promotion in Serbia since 2016 (overseen by the Ministry of Economy). In 2017, 15 of its 70 employees were working on implementing its Export Promotion Programme and its Support Programme for Exporters, with a budget of RSD 105 million (Serbian dinar; EUR 885 000) for these two programmes. Additionally, over 2017-18 RAS implemented a total budget of EUR 96 000 from the European Enterprise Network (EEN; see Box 12.2) to organise business-to-business (B2B) meetings in Serbia and abroad, connect domestic SMEs with those abroad, and provide information about foreign markets.

Turkey has over 15 different export promotion programmes as a result of numerous communiqués and parallel national strategies. The primary institution responsible for exports in Turkey is the Directorate General of Exports (DG Exports) of the Ministry of Trade. The SME Development and Support Organisation (KOSGEB) implements SME-specific programmes and has recently introduced an Internationalisation Support Programme.[2] The Turkish Exporters Assembly and Turk Eximbank also provide financial and technical support for export promotion. DG Exports implements support mechanisms for trade policy information; marketing services, including foreign market research and reports on market access; and consultancy and training to SMEs on exports and internationalisation.[3] The budget of DG Exports totalled TRY 989.5 million (Turkish lira; EUR 235.6 million) in 2017. Furthermore, the Ministry of Trade will establish 25 new export support desks across 16 provinces with proven export potential, which will significantly broaden support coverage and target export mobilisation through e-exports and e-commerce (Ministry of Trade of Turkey, 2018[11]).[4]

However, the other WB economies lag behind in their operational capacity to carry out extensive export promotion activities with a broad outreach.

The Albanian Investment Development Agency (AIDA) has been implementing export promotion activities since 2010. AIDA has operational autonomy to carry out its activities, but has relatively limited funds and only five employees working on export promotion. It has a fully government-funded annual budget of EUR 95 000 for export promotion.

Kosovo's Investment and Enterprise Support Agency (KIESA) had three employees and an allocated budget of EUR 351 000 for its export promotion and support sector in 2018. In North Macedonia, the Agency for Foreign Investment and Export Promotion of the Republic of Macedonia (Invest Macedonia) implemented a budget of approximately EUR 10 000 in 2017 and had EUR 70 000 allocated for its activities in 2018. Changes in staff are frequent, and have delayed the implementation of its 2018 work plan.

In Bosnia and Herzegovina, the Export Promotion Chamber of the Foreign Trade Chamber supports the development of export promotion policies with the Ministry of Trade and Economic Relations at the state level. It also co-operates with other agencies, such as the Foreign Investment Promotion Agency, regional chambers of commerce, and entity-level ministries.[5] Although it has autonomy over its budget and human resources, it is limited in both staff and funds. In the Federation of Bosnia and Herzegovina (FBiH), the Federal Ministry for Development, Entrepreneurship and Crafts (FMRPO) provides support schemes for SMEs, some of which also include export promotion activities. The Foreign Trade Chamber also acts as EEN co-ordinator in the FBiH.

In the entity of the Republika Srpska (RS), export promotion is carried out by the Ministry of Economic Relations and Regional Co-operation and the Republic Agency for Development of SMEs (RARS), which acts as EEN co-ordinator and works to implement EEN activities to support export promotion.[6] Budget figures for the respective institutions in charge of export promotion in Bosnia and Herzegovina are not available.

In Montenegro, the Ministry of Economy, via the Directorate for SME Development, was responsible for carrying out export promotion programmes under the previous SME Development Strategy (2011-2015). However, the directorate did not organise export promotion events or provide financial support to exporting SMEs, and relied almost exclusively on the EEN to carry out export promotion activities. Following a larger restructuring process of the ministry, the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds was set up in 2018 to provide SMEs with a one-stop shop for business support services (BSSs). In 2018, it had 20 employees and a budget of about EUR 600 000.

The average budget figures earmarked for export promotion activities in the Western Balkan economies are significantly lower than for other economies in the region. For example, in 2016, Slovenia's export promotion agency SPIRIT Slovenia had an operational budget of EUR 2.1 million and spent EUR 2.7 million on internationalisation activities (SPIRIT Slovenia, 2017[12]).

The insufficient financial resources devoted to export promotion in the Western Balkans are further exacerbated by the fact that export promotion agencies, in most cases, do not have a clear focus on certain activities or sectors. This poorly targeted support spreads the already limited budgets too thinly, hampering the effectiveness of the economies' export promotion efforts.

Box 12.2. SME support through the Enterprise Europe Network

SMEs in the WBT economies can benefit from support services offered by the Enterprise Europe Network (EEN). Since its launch by the European Commission in 2008, EEN has helped SMEs innovate and grow on an international scale. It is co-financed under the European Union's Competitiveness of Enterprises and Small and Medium-sized

Enterprises (COSME) programme.

EEN operates in over 60 countries worldwide and co-ordinates more than 3 000 experts and 600 member organisations, making it the world's largest support network for SMEs with international ambitions.

The network manages Europe's largest online database of business opportunities, allowing SMEs to search for business or academic partners to manufacture, distribute, co-develop and supply products, ideas and services. SMEs can access the site directly to find a partner abroad for their business, and can also use the European Innovation Council (EIC) wizard to identify which innovation funding instrument is best suited to their needs.

Between 2018 and 2020 an EIC pilot will provide EUR 2.7 billion to breakthrough, market-creating innovations. The largest portion of this is dedicated to the SME Instrument, which has a total budget of more than EUR 1.6 billion. This support is aimed at people and companies with ideas or innovations which are radically different from existing products, services or technologies; are highly risky; and need additional investment to get to market.

The SME Instrument is for small businesses – including start-ups – with a radical innovation that could disrupt established value networks and markets. The companies should have the ambition and potential to scale up. The SME Instrument provides full-cycle business innovation support. It has three phases, including a coaching and mentoring service.

Sources: EC (2018[13]), *Enterprise Europe Network website*, https://een.ec.europa.eu/ (accessed on 22 January 2019); EC (2018[14]), *EIC Pilot Funding*, https://ec.europa.eu/research/eic/index.cfm?pg=funding (accessed on 22 January 2019).

Export promotion programmes are widely operational but their uptake by SMEs could be further increased

Currently, all the economies provide some form of assistance to SMEs to foster their exports and access to international markets. This ranges from providing tailored information on trade policy and commercial intelligence, to financially supporting SMEs' attendance at trade fairs, organising customised training courses on marketing, and product development. Alongside these government efforts, SMEs can access support from EEN (Box 12.2).

SMEs repeatedly underlined in the private sector interviews that they require substantial support to conduct international market analysis in order to identify relevant export opportunities, and also noted their need for greater assistance to acquire product certifications in order to export. Some of the WBT economies offer these services more widely than others.

In Albania, AIDA's technical support covers the provision of market information, assistance in drafting marketing plans, and identifying SMEs' needs and training deficiencies. In 2017, 77 SMEs benefitted from financial support for export promotion through the Competitiveness Fund managed by AIDA. This included covering 70% of export costs related to product improvements (e.g. packaging, product conformity and certification), international trade fair participation and promotional materials.

In Serbia since March 2017, RAS has supported SMEs to foster their export competitiveness through its two pilot programmes described above: the Export Promotion

Programme and the Exporter Support Programme. The Export Promotion Programme has two components: 1) support for individual exhibits at international fairs abroad, covering up to 50% of companies' individual costs, with a total budget of RSD 40 million (EUR 329 500); and 2) the organisation of company visits abroad, with RSD 20 million (EUR 164 800) set aside to cover 50% of costs in each programme in the form of grants of up to RSD 1 million (EUR 8 300).[7] The Exporter Support Programme, launched in March 2017, also has two components: 1) Preparing for the First Export (EUR 100 000), which provides co-financing to the value of 60% in grants for organising thematic workshops on exporting for SMEs; and 2) Improving the Capacity of Exporters (EUR 335 000), which provides 50% in co-financing to SMEs for implementing international standards, certification and re-certification, export plan development, and tailored training for exporting and for designing new products or packaging.[8]

Turkey supported around 185 projects under the Supporting the Development of International Competitiveness programmes between 2011 and 2016, the umbrella organisations which benefitted each had around 15 companies.[9] Under the Ministry of Trade's call for projects to improve exports, 185 individual projects have been carried out. DG Exports also implements the Participation to Trade Fairs Organised Abroad, Market Research and Access to Market, International Branding, and the TURQUALITY projects.

North Macedonia targets its financial and technical support on SMEs that generate a certain amount of turnover and that have been identified as "fast-growing", having increased both their number of employees and turnover by at least 20% in one year. Moreover, the Ministry of Economy provides co-financing to SMEs at a rate of 75% up to the maximum amount of EUR 3 000 for market research, marketing strategy, training and promotional materials.

In Kosovo, KIESA's department for export promotion maintains a database for exporting companies and provides detailed sector reports for export-seeking SMEs on its website, with guidelines on exporting and information on creating a marketing plan (KIESA, 2018[15]). Over 300 SMEs received financial assistance to participate in conferences, trade fairs and consultancy services for exports in 2017, while 47 export-related contracts were signed in the same year. Several donor-funded programmes are also underway, such as the EUR 3 million Creating Employment through Export Promotion programme funded by GIZ and implemented by KIESA (GIZ, 2018[16]).

Export promotion for SMEs has been weakest in Bosnia and Herzegovina and Montenegro. As mentioned in the previous section, the Ministry of Economy's former SME Directorate in Montenegro did not organise export promotion events or provide financial support to exporting SMEs, and relied almost exclusively on EEN to carry out export promotion activities. Future export promotion activities will continue to be provided through EEN, co-ordinated by the Ministry of Economy. However, in 2019 the new Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds plans to develop a new programme which will be dedicated to enhancing export promotion for SMEs.

Financial support for SMEs in export promotion remains inconsistent across Bosnia and Herzegovina. At the state level, the Foreign Trade Chamber supported grants to the sum of EUR 385 000 for the organisation of trade fairs within Bosnia and Herzegovina and EUR 187 000 for participation in international trade fairs in 2017. In the FBiH, the FMRPO has provided SMEs with trade policy information, commercial intelligence, and co-financing support, e.g. for product development support and training. Under its

Strengthening the Competitiveness of SMEs scheme, it also provides export promotion support. In total, it allocated BAM 2 million (Bosnia and Herzegovina convertible mark; about EUR 1 million) to this scheme in 2017, of which BAM 300 000 (about EUR 154 000) were allocated to export promotion support. In the Republika Srpska, RARS itself provides mostly technical support and organises SME promotion events, while funding opportunities for SMEs remain limited. Meanwhile, the Chamber of Commerce and Industry of the Republika Srpska also supports the annual participation of business entities in domestic and international trade fairs in co-operation with chambers of commerce in the region and abroad, and the representation offices of the RS and international organisations.[10]

However, it is evident that the uptake of export promotion programmes among SMEs could be improved, since the budgets allocated across the Western Balkans and Turkey are not always fully used by SMEs. For instance, in a recent survey conducted by Turkey, 62% of the surveyed SMEs reported that although they were aware of the various support programmes, they did not believe that they could actually receive financial support under them even if they applied (see Box 12.3). The most commonly cited reasons were the complex application procedures and their lack of political connections. Although such surveys have not been undertaken in the Western Balkans, SMEs in these economies are likely to suffer from similar barriers. Recognising the SMEs' poor perceptions of export support programmes, Turkey embarked on a new project in 2017 using behavioural economics to design mechanisms to increase uptake of its export promotion subsidies and revive interest among SMEs (Box 12.3).

Box 12.3. Nudge Turkey: Designing user-friendly policies for exporting SMEs

Nudge Turkey was established in 2017 with funding from the British Embassy in Turkey. A Behavioural Insights Team from the United Kingdom provided consultancy support and Ernst & Young Turkey managed the implementation.

Challenges

The major goal of this project was to increase public support use, particularly by SMEs. A number of different programmes exist in Turkey that support firms to export. However, the analysis of Nudge Turkey, which is an official department within the Ministry of Trade, showed that only 86% of registered exporters which were eligible for at least one type of public support had not received any support. The median export value of those which did not receive a public support was below USD 30 000 in 2017, and the median number of employees was 8 in 2016, which indicates that public support are used by large companies which are familiar with the processes and have the necessary resources to manage the application process. Meanwhile SMEs, which need financial support the most, have remained largely unreached.

Scope

Nudge Turkey began with face-to-face interviews with exporters based in Ankara who had never received a public support, in order to find out why these firms had not applied. The results indicated that 73% had heard of at least one of the public supports, 77% did not know how to apply and 43% had heard positive feedback about the support. Most importantly, 62% believed that even if they applied, they would not receive the support.

For this last group, the reasons included being unable to complete the application process due to either complex procedures or insufficient resources, and concerns that the total subsidy budget may not be sufficient for all applications.

The project, in collaboration with the Behavioural Insights Team, designed an intervention to increase awareness of the available public support programmes and to encourage SMEs to apply. It aimed to address SMEs' cognitive biases when applying for the subsidies, indicated by their identified concerns and prejudices. A randomised contrail trial was carried out, and different e-mails containing behavioural messages were sent to 30 000 firms who did not apply to public support programme before. The preliminary results indicate that the messages, using behavioural economics principles, increased applications by more than 20% relative to the control group.

Nudge Turkey launched a new website (kolaydestek.gov.tr) in March 2018 to provide information to SMEs. It explains the application process using infographics with a few steps, rather than referring to sophisticated legislation; provides direct downloads of application documents, and gives direct contact details of experts for each public support programme. Finally, there are nine different animations, summarising the incentives, as well as a video that features the Minister of Trade addressing firms' concerns as identified through the interviews. Since the website's launch, more than 140 000 users have visited it.

Project completion and future initiatives

The team is currently seeking new intervention areas for better policies in Turkey by running randomised control trials. Nudge Turkey has published its first official guide in Turkish titled *Senin Kararın mı*? (Is it your Decision?) on behaviourally informed public policies.

Source: Based on information provided by the Ministry of Trade of Turkey.

Trade financing support mechanisms for exporting SMEs are widely available

Trade financing, such as through export guarantees, is especially relevant to help SMEs bridge the gap between exporters' and importers' differing expectations about when payment should be made. Such differences are an acute impediment for SMEs in accessing international markets (WTO, 2016[17]). SMEs in all the WBT economies could benefit from trade financing mechanisms.

In North Macedonia, the Macedonian Bank for Development Promotion provides export credit and insurance, while all major banks and some other non-bank financial institutions provide trade finance loans, guarantees, and letters of credit.[11]

Serbia's Export Credit and Insurance Agency operates jointly with other financial and development institutions to offer export credit insurance, financing, factoring and guarantees.[12]

In Turkey, Turk Eximbank offers a credit line for export preparation for SMEs to enhance their export capacity.[13] The Credit Guarantee Fund also provides letters of credit and export credit to insurance for SMEs in manufacturing and exporting. Between 2014 and 2018, the World Bank also granted USD 250 million to the Innovative Access to Finance project, which offers access to longer-term Islamic finance and factoring for SMEs and export-oriented enterprises. The project is being intermediated by the Industrial

Development Bank of Turkey and participating banks and factoring companies (World Bank, 2014[18]).

Albania provides support for the export of goods and services through export credit guarantee funds, while trade financing products such as trade finance loans, guarantees, and letters of credit are available through all major banks and some non-bank financial institutions.

Kosovo's Credit Guarantee Fund, established in 2016, offers trade finance tools through local commercial banks mainly supported by donor funding. However, SMEs in Kosovo exhibit little awareness of or demand for trade finance products (EIB, 2016[19]).

In Montenegro, the Investment and Development Fund assures exports of goods and services against non-market risks and supports SMEs in obtaining credits and guarantees. Most banks offer trade finance loans, guarantees and letters of credit.

In Bosnia and Herzegovina, trade finance guarantees to SMEs are available through banks, and many banks also offer letters of credit (EIB, 2016[20]). In the RS, trade finance guarantees are available through the Guarantee Fund of the Republic of Srpska, which offers a repayment period of up to two years for working capital and up to one year for loans for pre-export financing. The guarantee is up to BAM 300 000 (approximately EUR 154 000) for working capital and has a grace period of up to 12 months for working capital to prepare exports (Guarantee Fund of the Republic of Srpska, 2015[21]).

The European Bank for Reconstruction and Development's (EBRD) Trade Facilitation Programme provides trade finance in the form of short-term loans to selected local banks in all economies across the region (EBRD, 2018[22]).

Comprehensive and performance-based monitoring is largely lacking

All the economies except Montenegro have monitoring mechanisms in place for their export promotion programmes and export promotion agencies. The economies have also improved their collection of data differentiated by enterprise size, as nearly all of them now regularly collect data that track SME-specific imports and exports (see Figure 12.4).

Nevertheless, comprehensive and performance-based monitoring remains largely absent in the region. In most economies, monitoring does not include independent evaluations of targets achieved, nor does it assess the extent to which the services are efficient or cost-effective in increasing exports.

Albania is the only economy to benefit from an independent review of its export promotion activities. AIDA's Board of Directors and the Ministry of Economy and Finance regularly monitor AIDA's activities for effectiveness in achieving exports, and an independent evaluation of the funds used by AIDA was carried out by independent experts in 2017 (Memi and Shkodrani, 2017[23]). The report analysed quantitative data on the uptake of each funding scheme (number of applicants and number of beneficiaries) and evaluated the funds' administration based on two sources of qualitative information.[14] While it did not evaluate the quantitative impact on exports, the report provided a qualitative evaluation of the strengths and weaknesses of each fund and made appropriate recommendations for each weakness identified. It represents a positive first step towards more comprehensive evaluations of programmes.

Only the export promotion agencies in Kosovo, North Macedonia, Serbia and Turkey make annual reports on their activities publicly available. In some cases where SMEs receive direct financial support, the names of the beneficiary SMEs are not directly available to the public, which impairs transparency. For example, in North Macedonia the beneficiaries of financial support are not made public, while in Turkey business associations such as the Chamber of Commerce group SMEs together by sector and apply on their behalf for financial support. Only the name of these umbrella organisations are made public, not the names of the SME beneficiaries themselves.

Unlike the other assessed economies, Kosovo's KIESA does publish the actual signed and stamped evaluation form of each applicant on its website, offering full transparency on the beneficiaries and assessment scores of all applicants. This initiative was introduced in 2018, and it is believed that it will help to increase the transparency and accountability of the government officials who conduct evaluations and decide on the beneficiaries of various support programmes. Likewise, by providing publicly available examples of successful applications, it can also allow other SMEs to identify the qualities that make applicants successful and adapt their own applications accordingly.

The way forward for export promotion

- **Increase the human and financial capacity of export promotion agencies to provide more effective support to SMEs.** Government and private sector stakeholders in the Western Balkans repeatedly highlighted that the implementation of export promotion support suffers from the agencies' limited financial and human resources. Moving from grant-only programmes towards a greater number co-financing schemes, as well as collecting affordable user fees, would be the first steps towards boosting agencies' resources and underpinning their financial sustainability. Pouring more money into agencies' budgets is not enough to enhance their capacity, however. Staff need to be well versed in the challenges and needs of the enterprises in their economies in order to be able to develop tailored export promotion programmes for SMEs operating in different sectors. Giving the private sector and civil society organisations a larger share of the seats on agencies' executive boards could help to ensure that their programmes remain relevant.
- **Boost export promotion agencies' efforts to monitor their programmes comprehensively, and assess their impact transparently.** Disaggregated data need to be systematically and regularly collected to allow for quantitative evaluations. All economies should strengthen their monitoring and evaluation of their export promotion programmes in a way that critically assesses their output, results and impact on exports achieved, as this will allow them to further improve their programmes' designs and delivery. Systematic data collection will also allow for econometric evaluations of the cost effectiveness of export promotion agencies. In addition, regular independent evaluations are needed, led by companies hired through a competitive tender. Monitoring and evaluation are of paramount importance to increasing the effectiveness of public sector programmes and public budget allocation and spending. The *OECD Framework for the Evaluation of SME and Entrepreneurship Programmes and Policies* (2008[24]) can provide guidance for the WBT economies (see Box 5.3 in Chapter 5 on support services for SMEs).

Integration of SMEs into global value chains (Sub-dimension 10.2)

Participation in global value chains (GVCs) allows SMEs to enhance their efficiency and core competences by specialising in specific segments of production and performing them on a large scale, as opposed to trying to master and compete across the entire chain of productive activities (OECD, 2018[25]). SMEs can participate in global value chains directly by exporting intermediate goods and services for further processing, or indirectly by supplying intermediate goods and services to larger domestic firms which then export (OECD, 2018[25]). Indirect participation in global supply chains can be fostered through contractual arrangements with MNEs, such as supply/manufacturing agreements, licensing, research and development (R&D) agreements, technology transfer, and quality support, and by receiving inward foreign direct investment (FDI) (OECD / WTO / World Bank, 2014[26]). SMEs stand to gain much from deep linkages with MNEs including improving their managerial skills, ensuring increased compliance with international standards, accelerating innovation, and ultimately achieving higher-quality production. This has been confirmed by studies of FDI spillovers that have found evidence of MNEs providing local suppliers with help in setting up production lines, training in quality control, coaching in management strategy and financial planning, and introducing them to export markets (Javorcik Smarzynska and Spatareanu, 2005[27]).

SMEs face considerable challenges when integrating into global value chains. The logistics of attempting to integrate into GVCs place a disproportionate burden on SMEs: fixed costs, lack of economies of scale, shortage of working capital and lack of information or adequate training for compliance with quality standards all create barriers (ITC, 2015[28]). These challenges can be overcome through government assistance that is designed around the needs of SMEs and that addresses such barriers in a targeted way to ultimately help them be better informed and equipped to attain the quality standards necessary to become competitive suppliers.

This section assesses government support for the integration of SMEs into global value chains against three thematic blocks (Table 12.5). It considers whether governments have planned and designed programmes to support the integration of SMEs into global value chains, and whether the programmes are linked to relevant national SME strategy documents. It then examines to what extent implementation of government support helps to promote SME clusters and linkages with large exporting domestic firms, assist SMEs to import in order to attain better quality inputs, promote technology transfers from MNEs, and systematically informs SMEs about the programmes and policy initiatives on the benefits of participation in GVCs. Finally, it evaluates the monitoring mechanisms in place for these support programmes.

Table 12.5. Scores for Sub-dimension 10.2: Integration of SMEs into global value chains

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	1.40	2.07	4.00	4.60	3.80	4.60	4.60	**3.58**
Implementation	1.00	1.86	3.86	3.29	2.43	4.43	4.71	**3.08**
Monitoring and evaluation	1.00	1.00	1.00	1.00	3.67	2.33	2.33	**1.76**
Weighted average	**1.12**	**1.75**	**3.33**	**3.22**	**3.09**	**4.06**	**4.20**	**2.97**

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

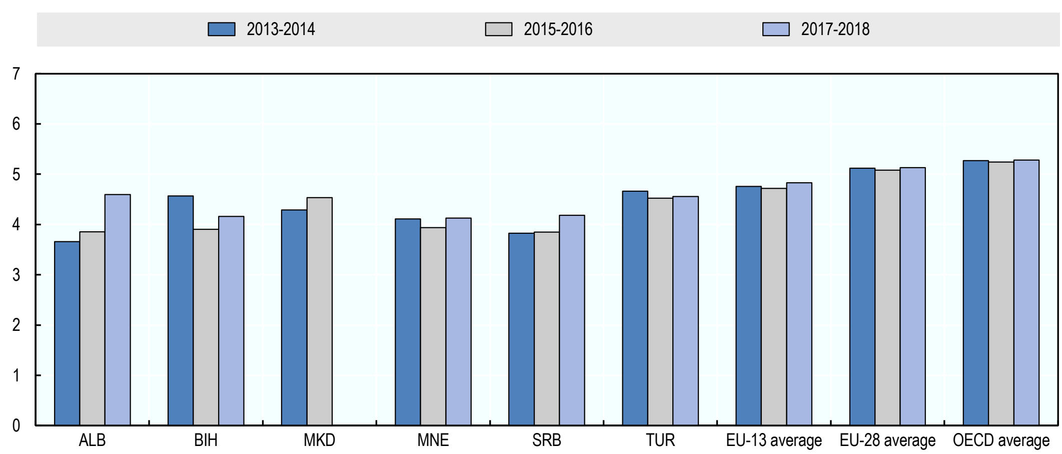
Overall, Serbia and Turkey lead the way in assisting SME integration into value chains, while the rest of the economies – particularly Albania and Bosnia and Herzegovina –

have further room to improve in their support for cluster development and enhancing supplier quality. However, compared to the previous assessment, Kosovo, North Macedonia, Serbia and Turkey have made much progress in the design and implementation of programmes.

Supplier quality in the WBT economies is seen as lower than in EU or OECD economies

Supplier quality is crucial to the successful integration of SMEs into GVCs (UNCTAD, 2010[29]). Bringing their product quality up to a good-enough standard to integrate into value chains was a common challenge noted among SMEs in the private sector interviews conducted during this assessment. This finding is also reflected in the World Economic Forum's *Global Competitiveness Index* (WEF, 2017[4]), which found that the quality of local suppliers is perceived to be lower in WBT economies than the EU and OECD averages (Figure 12.6).

Figure 12.6. Local supplier quality (2013-18)



Note: Survey question: In your country, how do you assess the quality of local suppliers? [1 = extremely poor quality; 7 = extremely high quality]. 2017-18 data for North Macedonia not available. Data for Kosovo not available. OECD and EU averages are calculated as simple averages. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.

Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: WEF (2018[30]), *The Global Competitiveness Index Dataset 2007-2017*, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/.

StatLink http://dx.doi.org/10.1787/888933937755

Economies have started to take a more strategic approach to integrating SMEs into global value chains

The WBT economies have made considerable progress in planning and designing programmes to promote SME integration into global value chains, by also improving supplier quality. All economies now address SME integration in global value chains in their relevant strategic documents and all have planned programmes (in Bosnia and Herzegovina, programmes exist at the entity level). In Kosovo, North Macedonia, Serbia and Turkey, the programmes are designed to promote business linkages between SMEs and large domestic exporting firms. Most of these programmes also include specific provisions aiming at promoting technology transfers from MNEs.[15]

The implementation of plans has not always followed suit

Carrying these strategies forward, all WBT economies with the exception of Montenegro[16] have a dedicated public institution in place to support SME integration into global value chains, yet only Kosovo (with donor support), Montenegro, Serbia and Turkey have operational programmes with mobilised budgets.[17]

In the absence of a programme to support integration into global value chains, Albania's government provides support for improving production quality. Through the Italian-Albanian project for the development of SMEs, the government provides financial and non-financial tools to assist SMEs in realising investments aimed at increasing their quality of manufacturing and improving their industrial competitiveness. AIDA also works to provide services for SME integration into global value chains under the auspices of EEN.

North Macedonia has also been implementing activities with the aim of promoting business linkages between SMEs and large domestic exporting firms, and encouraging technology transfers from MNEs. Some initiatives have been carried out with the support of international donors. For example, the Macedonia Manufacturing Expo held at the end of 2016 aimed to integrate companies into global supply chains. The event was sponsored by the United States Agency for International Development's (USAID) Small Business Expansion Project, with 48 domestic suppliers and 16 foreign companies present as potential buyers. The Competitiveness and Export Readiness Programme in Kosovo will prepare SMEs to integrate into global value chains and improve national quality infrastructure (World Bank, 2017[31]).

Serbia and Turkey perform particularly well in programme implementation as their programmes are operational and relatively well funded. In Serbia, RAS commenced its Support Programme for the Development of SME Competitiveness in March 2017 with a total available budget of RSD 100 million (about EUR 824 000) (RAS, 2017[32]). It has three main components: capacity building, support to business networks and support for integration into supply chains. Under this last component, the existing programme has provided financial support to 20 enterprises to the value of RSD 28.9 million (EUR 239 000), mostly for purchasing equipment to help them to upgrade within supply chains, and for harmonising their operations with international standards. This arguably indirectly helps SMEs reach the standards needed to supply to exporters (often multinational companies).

In Turkey, the Ministry of Trade directly supports SMEs' integration into global value chains through two primary initiatives, the Directive on Supporting Certificates of Market Access and the Supporting the Development of International Competitiveness (UR-GE) programme, both managed by the Ministry of Trade and implemented by the Turkish Exporters' Assembly. The Directive on Supporting Certificates of Market Access was widened over the assessed period to cover companies' expenses for participating in global value chains (EC, 2017[33]). Its targets are in line with the SME Strategy and the Tenth Development Plan.[18] With a budget of TRY 1.44 billion (about EUR 343 million) over

2018-22, the Turkish Exporters Assembly which implements the project provides project-based financial support for SMEs to procure machinery, equipment, training, consultancy and software, customer visits, and certification-test analysis, to a maximum of 50% of costs and USD 1 million per beneficiary. As this programme was only implemented in 2017, data on its results are not yet available. The companies which have qualified as beneficiaries of the programme will be audited annually by the Ministry of Trade in order to evaluate their performance, though the results of this monitoring will not be made publicly available.

The UR-GE programme also provides strong support for SME integration into GVCs, exemplified by the success of its footwear cluster support project (Box 12.4). The strategic design and implementation of this programme, arranging training and advisory activities in line with needs analysis findings, led to a foreign trade surplus for the region's footwear sector. Meanwhile, KOSGEB indirectly contributes to these efforts through a wide range of supporting activities through the EEN.[19] Alongside these ongoing programmes, KOSGEB's recently designed Internationalisation Support Programme specifically aims to support SME integration in GVCs in such areas as software and hardware; testing, analysis and certification; and service procurement support. Beneficiaries can receive 75% of the cost up to a maximum value of TRY 300 000 (about EUR 71 500) each.[20]

All economies have mechanisms in place to inform SMEs about the programmes and policy initiatives for facilitating their integration into GVCs. Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia, and Turkey have all developed approaches to raise awareness of the potential of participation in GVCs through their websites or periodic events. Albania has created an online B2B platform to help SMEs identify and connect with potential partners, and share information on trade fairs and activities. Montenegro's support is consistently promoted through the Business Caravan project, which has gained widespread media coverage as part of the government initiative to ensure that SMEs are aware of the support services available to them.

Cluster development is increasingly being supported

Clusters are a powerful instrument for connecting groups of specialised SMEs and related innovation actors in order to strengthen their competitiveness (EC, 2016[34]). The European Commission's *Smart Guide to Cluster Policy* highlights that "the full potential of clusters is unlocked when policies and SME support measures are in place that can structure the co-creation process and thus direct public and private investment towards smart specialisation. This requires not only linking up the main players in the regional ecosystem and involving a wide range of stakeholders, but also overcoming sectoral, regional and departmental silos." (EC, 2016[34]).

All WBT economies have included cluster support programmes in their relevant strategy documents.

Serbia's SME Development Strategy 2015-2020 includes actions to support the development of SME clusters. Clusters in Serbia primarily benefit from three programmes:

1. The Support Programme for the Development of SME Competitiveness, which provided support to three clusters for a total of approximately RSD 3.6 million (about EUR 30 000) in 2017. Eligible activities for co-financing under the programme include procurement of joint production equipment, infrastructural furnishing of an existing or

new joint workspace, renovation of an existing or new joint workspace, and the development of joint production processes.

2. The Support Programme for the Development of Business Institutional Infrastructure, which also operates through a co-financing scheme of 50% grants and 50% private funds to support the development of clusters and the stimulation of business associations, among other activities.[21] In 2016, the programme supported 14 clusters with a total of RSD 33 million (about EUR 269 000).

3. The Support Programme for the Promotion of Economic Development Projects. Launched in 2017, the programme targets the promotion of entrepreneurship and best practices with a focus on youth and women's entrepreneurship, the preparation of analysis and research in order to increase SMEs' competitiveness, developing new services and improving existing services for SMEs. In 2017, it supported nine clusters to the value of RSD 14.6 million (about EUR 120 300).

Overall, Montenegro has 37 established clusters registered with the Ministry of Economy, 7 of which are SME-specific. Montenegro seeks to advance its cluster development through programmes by the Ministry of Economy, the Investment and Development Fund and international organisations. Montenegro's Strategy for Development of Micro, Small and Medium-sized Enterprises 2018-2022 covers support for existing clusters and further cluster development, the formation of vertical clusters in the agriculture and tourism sectors, and linking clusters to scientific research institutions. The action plan for the strategy aims for 48 clusters to be registered in the Ministry of Economy's database by 2020. Likewise, the Industrial Policy 2016-2020 aims to integrate the economy into global value chains, with the goal of attaining a higher positioning within value chains and higher export values (Government of Montenegro, 2016[35]). It focuses on improving the modernisation, smart specialisation and connectivity of strategic sectors with an emphasis on improving market access. The Ministry of Economy has been implementing cluster support programmes in co-operation with international donors. For example, since 2014, the Ministry of Economy, the United Nations Development Programme (UNDP) and United Nations Industrial Development Organization (UNIDO) have facilitated cluster development through a joint project, co-funded by the EU (UNIDO, 2015[36]). One of nine Business Stimulating programmes, implemented in co-operation with the UNDP, it seeks to foster cluster development by providing co-financing support for investment in intangible and tangible assets and for operating costs. This programme supported 16 clusters during 2012-16, which received almost EUR 99 500 in support (Ministry of Economy of Montenegro, 2017[37]).

Kosovo's Private Sector Development Strategy 2018-2022 (still a draft at the time of writing) includes actions to support clusters by providing incentives to SMEs for their co-operation and assistance in facilitating meetings, supplying brochures on the steps to cluster formation, and covering administrative costs with the overall aim of achieving self-funded clusters. In the same vein, Kosovo's National Development Strategy 2016-2022 also aims to promote networks and cluster associations through three components, although there are no operational programmes to support these components. The Ministry of Trade and Industry has recently published an information document called the Cluster Roadmap, which lays out the path of cluster development from defining a strategy and achieving regular joint activities, to reaching a self-sustaining phase. Together with KIESA, the ministry has planned a support programme for clusters which includes providing incentives to SMEs for their co-operation, assistance in facilitating meetings, brochures on the steps needed to form clusters, and covering administrative costs, with the overall aim of achieving self-funded clusters. However, the budget relies mainly on donor contributions and the programmes remain at an early stage of implementation – impeded by limited staff and funds. These difficulties notwithstanding, one cluster in the metal industry and renewable energy sector (KIMERK) has been established to date.

In Bosnia and Herzegovina, despite having planned programmes in the 2016-18 action plan of the strategy document Development of Small and Medium Enterprises in the Federation of Bosnia and Herzegovina 2009-2018, the government in the Federation of Bosnia and Herzegovina did not mobilise a budget for it over the assessed period. Cluster development support in the Republika Srpska was previously provided through three different programmes implemented by RARS: the Cluster Support and Development Programme 2013-2015; the Woodwork and Forestry Cluster within the Public-Private Dialogue and Partnership Programme, in co-operation with the UNDP; and the Banja Luka IT cluster. While all of these programmes have since been phased out, the RS has included measures to promote the internationalisation of SMEs via clustering support in its Development Strategy of SMEs 2016-2020. Moreover, RARS continues to promote cluster development by organising events, particularly international business meetings for companies and clusters in 2016 and 2017.[22]

Albania's Business and Investment Development Strategy 2014-20 planned to support (industrial) cluster development; however, tangible results are still lacking at this stage as no official government programme has been implemented during the assessed period.[23] No financial support for clusters has been provided. However, AIDA has held workshops on the theme of cluster development. It also provides services for foreign investors seeking partnerships with enterprises by actively encouraging SME participation in cluster matchmaking events.[24]

North Macedonia's National Strategy for Small and Medium Enterprises 2018-2023 includes the development of strategic industrial value chains and clusters. The accompanying action plan aims to identify key international value chains in which SMEs could successfully participate, and to develop support programmes and services to help these firms expand into these markets. These measures will be realised through an assessment report on SME participation in international markets (2018) and a cluster mapping report identifying industry clusters connected to international value chains (2019), for which the government has allocated a two-year budget of EUR 60 000. Currently there are 30 clusters in North Macedonia, spanning the information technology, automotive industry, textile, fashion design, wine, agricultural mechanisation, wood processing and food processing sectors. The Ministry of Economy provides support for clusters in export promotion and foreign fairs though co-financing 75% of costs, up to a limit of EUR 6 500 per cluster.

Turkey's cluster initiatives have been successfully supported through the UR-GE programme. A notable example is the footwear cluster support project (Box 12.4).

Box 12.4. Turkey's UR-GE programme and the Izmir Footwear Cluster Support Project

The UR-GE Programme (Supporting the Development of International Competitiveness) is an SME support programme based on clustering principles that aims to develop the export capabilities of the Turkish manufacturing sector. This initiative, which has been running since 2011, is managed by the Ministry of Economy, and its main objectives are to help SMEs to strengthen their international competitiveness and increase their exports.

The assistance is provided via the Turkish Exporters Assembly to the clusters' associations or institutions, and cascades down to the beneficiary SMEs. An additional goal of the programme is to cover the expenditure of co-operating institutions for projects approved by the Ministry of Economy.

The support is provided to the clusters' associations or institutions by the UR-GE programme in three main stages, carried out by private sector consultancy companies, trainers and sector experts:

1. A needs analysis of the beneficiary cluster. This exercise results in a report that outlines the baseline from which to plan the activities and a strategic route map of the project to be implemented.
2. Training and advisory activities, based on the findings and recommendations of the needs analysis, with a view to providing SMEs with export-related skills and the competitive strength to succeed internationally.
3. A range of targeted and tailored international business development and marketing activities.

The Izmir Footwear Cluster is a very active cluster that has benefitted considerably from the UR-GE programme. The needs analysis identified the following main objectives:

- Prepare and support the SME cluster members, i.e. SMEs operating in the shoe design and manufacturing sector, to develop effective international business.
- Enhance product quality and stimulate new product development to improve product design and quality, and to increase profit margins.

The cluster has successfully completed the first project stage (2012-15) and, thanks to its highly satisfactory results, is currently undergoing a second project stage. In particular, the first project saw exports from the regional cluster increase by 56%, from USD 22.2 million in 2012 to USD 34.6 million in 2016. This led to a foreign trade surplus for the footwear sector in the region, at a time when Turkey overall was facing a foreign trade deficit in the sector.

The Footwear Cluster Support project was built on consistent and in-depth training needs analysis, together with effective planning and design of the programme. In addition, the project offered clearly defined learning content tailored closely to the beneficiaries' needs, and a suitable blend of delivery methods.

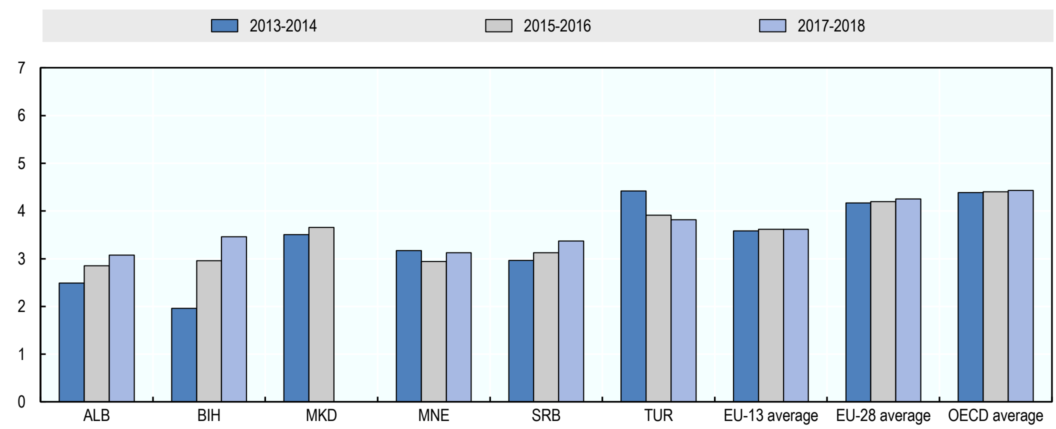
The results and impact of the Footwear Cluster Support project were thoroughly evaluated by an independent organisation and shared with policy makers at both national and regional levels.

Sources: TASD (2018[38]), *Footwear Industrialists Association of Turkey website*, www.tasd.com.tr/en/index.php; Ministry of Economy of Turkey (2019[39]), *UR-GE Turkey website*, http://urgeturkey.com/en/ (accessed on 23 January 2019); Ministry of Economy of Turkey (2019[40]), *İzmir Shoe Cluster*, www.kumelenme.gov.tr/kumeler/izmir-ayakkabicilik-kumesi/#bilgi (accessed on 23 January 2019)

Despite the lack of implementation of cluster support development programmes in some WBT economies, the perceptions of cluster development in the Western Balkans seem to have improved over the assessment period. According to the World Economic Forum's *Global Competitiveness Index*, cluster development is perceived as most advanced in

North Macedonia and Turkey, although improvements can be noted between 2014 and 2018 in Albania, Bosnia and Herzegovina, and Serbia (WEF, 2017[4]). However, all the Western Balkan economies still lag behind the EU and OECD averages (Figure 12.7).

Figure 12.7. State of cluster development (2014-18)



Note: Survey question: In your country, how widespread are well-developed and deep clusters (geographic concentrations of firms, suppliers, producers of related products and services, and specialised institutions in a particular field)? [1 = non-existent; 7 = widespread in many fields]. Data for Kosovo is not available. 2017-18 data for North Macedonia are not available. OECD and EU averages are calculated as simple averages. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
Source: WEF (2018[30]), *The Global Competitiveness Index Dataset 2007-2017*, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/.

StatLink http://dx.doi.org/10.1787/888933937774

The European Cluster Collaboration Platform could provide clusters in the WBT economies with significant opportunities to build broader regional connections by increasing their visibility at the European level and beyond. The platform helps facilitate cluster formation and interaction within the EU through Cluster Mapping, Cluster Matchmaking Events and supporting European Strategic Cluster Partnerships (EC, 2018[41]).

Monitoring and evaluation of programmes for GVC integration is sorely lacking

While the WBT economies overall have made progress in laying out or preparing programmes to support SME integration into GVCs, there is still work to be done to strengthen their effectiveness. Only Montenegro, Serbia and Turkey reported establishing a monitoring mechanism for their SME GVC integration programmes – and, of these three, only Montenegro has made the monitoring report publicly available. No independent reviews of support programmes have been conducted in any of the WBT economies.

The way forward for integration into global value chains

- **Intensify efforts to raise awareness among SMEs of the opportunities associated with participating in GVCs.** The Western Balkan and Turkish governments should intensify their efforts to *proactively* act as knowledge brokers of the needs of upstream and downstream enterprises, and encourage MNEs to share their roadmaps for future product and process development with their SME partners. Moreover, the economies should provide access to accurate information on market opportunities for subcontracting and on potential foreign partners through market reports and databases, trade fairs, exhibitions abroad and electronic trading platforms or subcontracting exchanges. The OECD Tokyo statement on strengthening the role of SMEs in GVCs provides useful policy recommendations that WBT economies should follow when enhancing their awareness-raising and information-sharing activities (Box 12.5).

Box 12.5. The OECD Tokyo Action Statement for Strengthening the Role of SMEs in Global Value Chains

Following the OECD Global Conference on Enhancing the Role of SMEs in Global Value Chains (GVC), which identified the significant challenges that SMEs face in the international landscape, the OECD Tokyo Action Statement for Strengthening the Role of SMEs in Global Value Chains, adopted at the OECD Global Conference in Tokyo on 1 June 2007, provides the following guidance to governments:

Raising awareness of the opportunities for participating in global value chains through:

- Facilitating access to accurate information on market opportunities for subcontracting and on potential foreign partners through market reports and data bases, trade fairs, exhibitions abroad and electronic trading platforms or subcontracting exchanges.
- Encouraging SMEs to call in external consultants for the implementation of feasibility studies and market research in order to support FDIs.
- Encouraging SME investment by facilitating companies' efforts to expand their business globally through information services and other means.
- Facilitating information flows (including information sharing about needs between upstream and downstream partners) throughout the entire GVC and in particular encouraging MNEs to share their road-map in terms of future product and process development with their SME partners

Increasing participation in global value chains through collective action and co-operation by:

- Supporting the establishment and development of industry groupings (i.e. clusters) on regional, cross-regional, or cross-border levels.
- Facilitating SME consortia jointly to bid, produce and market, particularly in relation to government procurement programmes.
- Promoting clusters and networks to improve SME participation in GVCs through fostering and strengthening links at the local level among universities, research

institutions, laboratories and SMEs including for example, funding co-operative research programmes.

- Targeting support for clusters in selected technologies, particularly where there is substantial potential in knowledge-intensive and export-oriented market segments and for supporting R&D for continuous innovation.
- Promoting business linkages between MNEs and SMEs through identifying and matching potential partners while ensuring diversification of partners to avoid becoming dependent on one partner. Helping SMEs to develop their negotiating capacities and skills with MNEs through institutional support (awareness building) and training measures.
- Encouraging MNEs to adopt transparent selection criteria when consolidating their supplier networks, providing SMEs fair warning of such consolidation practices and allowing them reasonable time to adapt their offerings.
- Facilitating supplier development programmes, where SMEs are coached and mentored in key areas such as design and production engineering (this may include sending in technical teams to advise on upgrading).

The Action Statement also gives specific OECD member country examples of the recommendations listed. Governments are encouraged to consult the statement for further recommendations in the areas of increasing SMEs' value obtained from intellectual assets and intellectual property and facilitating the adoption of product quality and process standards.

Source: OECD (2007[42]), *Enhancing the Role of SMEs in Global Value Chains: OECD Tokyo Statement on Strengthening the Role of SMEs in Global Value Chains*, www.oecd.org/cfe/smes/38774814.pdf.

- **Implement programmes to enhance supplier quality of SMEs.** This assessment found that local supplier quality in the WBT economies remains a major impediment to SMEs wanting to integrate into GVCs. There are few programmes in the region that actively aim to improve SMEs' supplier quality so as to enhance their linkages to MNEs. Box 12.6 provides good practice examples of supplier development programmes that the WBT economies could emulate when designing such programmes.

Box 12.6. Good practice examples of national supplier development programmes

Supplier development programmes are designed to overcome the main barriers to developing buyer-vendor linkages between multinational enterprises and domestic firms (Smarzynska and Spatareanu, 2014[43]). Successful examples include the Czech Supplier Linkage Programme from the early 2000s, the Singaporean Local Industry Upgrading Program from the 1980s, the Supplier Development Programme implemented by CORFO in Chile, and the Tractor Programme in Mexico. Supplier development programmes typically combine the following:

- The development of relationships with local senior managers of multinational enterprises (MNEs) to encourage co-ordination of purchasing plans and pool information about future demand.
- The establishment of a database of qualified domestic suppliers with information

on products, customers and benchmarking of suppliers' performance, organised by industry/sector or commodity/product. This reduces the search costs for MNEs in sourcing potential domestic suppliers.

- A process for assessing the need for upgrading SMEs' capabilities in various aspects of company performance – management, production, sales and commercialisation, innovation, human resources and overall productivity. The development of a network of mentors/consultants to assist in upgrading, e.g. through regular visits to the company to help the company monitor its implementation.
- Co-financing or direct assistance for SME upgrading, including management training and other improvements in efficiency. Eligible costs typically include the salary of the supply chain champion and the fees of the external advisors or mentors.

Sources: Extracted from: OECD (2017[44]), *OECD Reviews of Innovation Policy: Costa Rica 2017*, https://dx.doi.org/10.1787/9789264271654-en; OECD (2016[45]), *OECD Reviews of Innovation Policy: Malaysia 2016*, https://dx.doi.org/10.1787/9789264255340-en; Smarzynska and Spatareanu (2014[43]), "Czech suppliers of multinational corporations: benefits and challenges", http://documents.worldbank.org/curated/en/504861468026113344/Czech-suppliers-of-multinational-corporations-benefits-and-challenges.

- **Design cluster development programmes carefully**. Empirical work on clusters advises policy makers to be cautious when interfering with local production structures, since they could spread themselves too thin (Duranton, 2011[46]). The European Commission's *Smart Guide to Cluster Policy* highlights key considerations for policy makers in designing modern cluster policies (Table 12.6).

Table 12.6. Dos and don'ts of modern cluster policy

Don't	Do
Support individual specialised firms	Support new activities, in particular those being undertaken by groups or networks of related industries
Create clusters from scratch (i.e. implementing "wishful thinking" of policy makers)	Facilitate the growth of clusters by building upon existing strengths (i.e. implementing evidence-based policy by building upon a comparative analysis of regional strengths and 'entrepreneurial discovery')
Fund large numbers of widely varied clusters	Fund strategic cluster initiatives that focus on promoting the strengths, linkages and emerging competences and which are in line with the aims of national/regional smart specialisation strategies
Follow growth trends without reflection	Capitalise upon regional competences to diversify into new activity areas and to develop emerging industries
Follow a narrow sectoral cluster approach	Follow a systemic cluster approach focusing on related industries by capturing cross-sectoral linkages
Develop and implement cluster policy in isolation from other policy areas	Adopt an inclusive and participatory cluster approach (i.e. involving businesses, investors, academics and policy-makers, and making links with related policy themes such as R&D, innovation, entrepreneurship, access to finance and SME internationalisation)
Support cluster initiatives that are only inward looking	Support cluster initiatives that have an international perspective on the positioning of the cluster in international value chains
Focus exclusively on strengthening regional partnerships	Build regional partnerships as a basis for joining European Strategic Cluster Partnerships

Source: Extracted from EC (2016[34]), *Smart Guide to Cluster Policy*, http://dx.doi.org/10.2873/729624.

Promoting the use of e-commerce (Sub-dimension 10.3)

E-commerce is commonly defined as the sale or purchase of goods or services conducted over computer networks. As the digital economy evolves, e-commerce presents an opportunity for SMEs to catalyse their access to new international markets, increase their involvement in trade, reduce operating costs and enhance their competitiveness (OECD, 2018[25]). Simply through Internet access, SMEs can overcome information disadvantages to connect with buyers and sellers of their goods and services more easily. It allows them to become better integrated into global value chains as they can ship and receive smaller orders which may not always be possible through traditional commercial channels. E-commerce and e-business are positively linked to enterprise performance outcomes such as employment growth, and improved productivity and financial performance, and can internationalise SMEs by reaching beyond traditional and digital borders to access new markets (Grandon and Pearson, 2004[47]; Raymond and Bergeron, 2008[48]; OECD, 2016[8]).

Clear and consistent regulatory frameworks, particularly for consumer protection, are an essential element of building trust in the digital economy. Governments can help ensure that SMEs leverage this opportunity by offering a secure operational environment regulated by a sound legal framework, and by increasing SMEs' access to digital platforms. Given the limited market capacity of the assessed economies (with the exception of Turkey), e-commerce presents an opportunity to significantly increase enterprises' market bases beyond their domestic capacity and enlarge their reach.

This section assesses government promotion of the use of e-commerce by SMEs. More specifically, it considers the legal frameworks in place for e-payments and consumer protection and examines the development and implementation of programmes to promote e-commerce. It also takes note of the extent to which governments act to build trust in their digital economies, provide relevant information for SMEs on e-commerce and collect key performance indicators on e-commerce (Table 12.7).

Table 12.7. Scores for Sub-dimension 10.3: Promoting the use of e-commerce

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.29	2.71	3.29	3.29	3.29	3.29	5.00	**3.45**
Implementation	1.00	1.33	2.00	3.00	2.00	2.00	4.50	**2.26**
Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	3.50	**1.36**
Weighted average	**1.69**	**1.68**	**2.19**	**2.69**	**2.19**	**2.19**	**4.45**	**2.44**

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

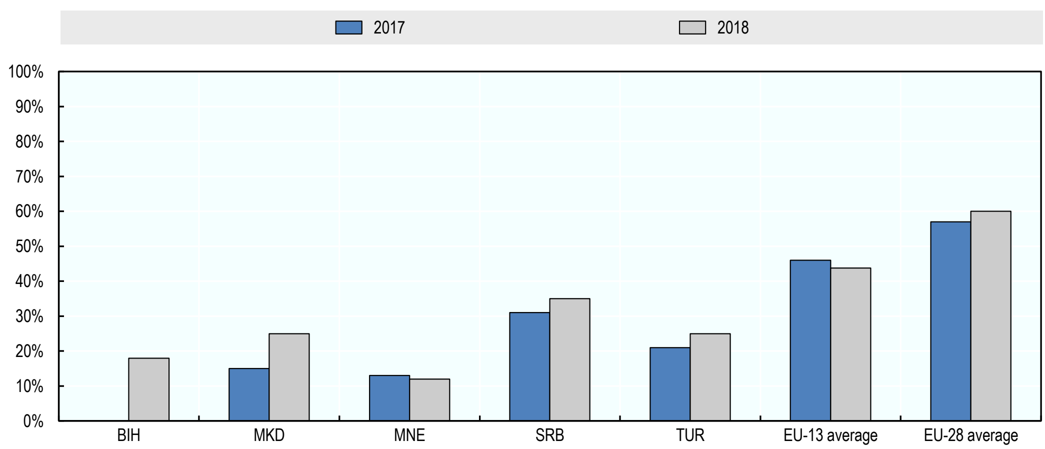
Overall, e-commerce policies can still be improved considerably throughout the region. Of the seven assessed economies, Turkey has taken the most steps to promote SMEs' uptake of e-commerce and its scores significantly outpace those of the Western Balkan economies.

The use of e-commerce in WBT economies lags behind the EU

Quantitative data indicate that individuals' use of e-commerce in Turkey and those Western Balkan economies for which data was available remains largely behind the EU averages (Figure 12.8). In 2018, 60% of individuals in the average EU-28 economy purchased on line. Within the WBT economies, the share of individuals who purchase on line was largest in Serbia (35%), Turkey (25%) and North Macedonia (25%).

Figure 12.8. Personal use of e-commerce (2017-18)

Percentage of individuals purchasing on line in the last 12 months



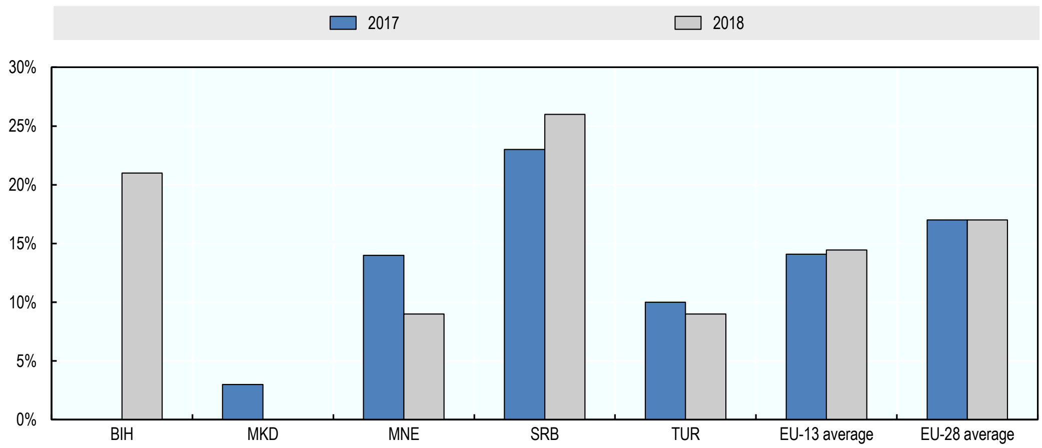
Note: Data for Albania and Kosovo not available. 2017 data for Bosnia and Herzegovina not available. EU-13 average has been calculated as a simple average. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
Source: Eurostat (2018[49]), *Eurostat (database)*, https://ec.europa.eu/eurostat/data/database.

StatLink http://dx.doi.org/10.1787/888933937793

The percentage of SMEs selling on line was much higher in Serbia (26%) and Bosnia and Herzegovina (21%) than in the other WBT economies for which data were available, as well as the EU averages (Figure 12.9). The share was lowest in North Macedonia, at 3%. At the same time, the private sector interviews indicated that common barriers to engaging in e-commerce included insufficient knowledge by SME staff and the limited adoption of information and communications technology (ICT) by their enterprise. Firms also mentioned that they were more likely to buy than to sell on line.

Figure 12.9. SME use of e-commerce for sales (2017-18)

Percentage of SMEs (10-249 employees) selling on line in the last 12 months (excluding the financial sector)



Note: Data for Albania and Kosovo not available. 2017 data for Bosnia and Herzegovina not available. 2018 data for North Macedonia not available. Due to the unavailability of 2017 data for North Macedonia, 2016 data were used instead. EU-13 average has been calculated as a simple average. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
Source: Eurostat (2018[49]), *Eurostat (database)*, https://ec.europa.eu/eurostat/data/database.

StatLink http://dx.doi.org/10.1787/888933937812

The most often-cited reason for SMEs' poor uptake of e-commerce is a lack of knowledge and skills in new technologies, with the use of outdated technology also frequently mentioned.

Clearly the WBT governments still have scope to increase awareness of the benefits of e-commerce. Only Bosnia and Herzegovina (in the Republika Srpska), North Macedonia, Serbia, and Turkey have dedicated websites offering information on the opportunities and challenges of e-commerce, as well as the relevant legislation, etc.

Turkey has centralised all such information on e-commerce on the Ministry of Trade's Electronic Commerce Information Platform, which lists useful links, statistics, relevant e-commerce legislation, business and legal associations (providing legal, infrastructure and operational support), an accessible registry of nearly 13 000 entities and their e-commerce sites (any direct, intermediary, or contracted service providers engaging in electronic commerce in Turkey are required to register with this site), and a clear user guide for companies wanting to register. However, while Turkey monitors its e-commerce promotion programme, it does not collect key performance indicators on e-commerce.

Serbia's information website covers upcoming events and relevant legislation. However, it does not connect companies in the same way that Turkey's online platform does by having SMEs register and create profiles.

In North Macedonia, the Ministry of Information Society and Administration maintains a website that provides legal regulations, tips for engaging in e-commerce, and links to e-stores, but it does not have any initiatives to actively promote e-commerce among SMEs. The initiative for promoting the uptake of e-commerce has primarily been taken by the private sector, namely by the E-commerce Association. The Customs Administration under the Ministry of Finance has signed a memorandum of co-operation to become an honorary member of the E-commerce Association with the aim of sharing relevant information and jointly contributing to the development of relevant programmes, particularly on cross-border e-commerce. However, SMEs must pay to join the association before they can access information on data and research, networking events, education and training, and advocacy and lobbying support.

Legal frameworks for e-commerce are in place, but it's early days for building digital trust

Legal frameworks for e-payments and consumer protection in e-commerce are in place across all WBT economies. The presence of legal frameworks is a step in the right direction, as they form a secure bedrock on which to build the operational environment for e-commerce. However, the latest *OECD Competitiveness Outlook* assessment found that not all of the WB economies' legal frameworks were fully aligned with EU frameworks (i.e. e-Commerce Directive 2001/31/EC) (OECD, 2018[50]). Serbia had undertaken legislative reforms and proposed a new legislative framework on e-commerce in October 2017 which covers electronic documents, electronic documents, electronic signatures and stamps, and electronic submission of documents. Albania is currently in the process of revising its law on e-commerce that was adopted in 2008, with a draft that is now in the consultation phase. Its legislative framework on e-signatures complies with the EU framework and a consumer protection strategy is in place, although implementation is weak (OECD, 2018[50]).

Beyond these legal frameworks, the region has yet to realise the institutional and policy co-ordination needed to enable e-commerce. For instance, in Kosovo and Serbia, private sector actors report difficulties in retaining international e-commerce clients because local banks often do not support online services that accept credit card payments. Likewise, the other Western Balkan economies lack full access to innovative payment systems, especially for e-commerce. Consumers in North Macedonia can only use PayPal to send funds, while online payments by credit card are rare in Albania and Bosnia and Herzegovina.

In terms of building trust in the digital economy, the *Multi-annual Action Plan for a Regional Economic Area in the Western Balkan Six* includes actions to increase citizens' trust in online services (MAP, 2017[6]). Furthermore, in the context of the Sofia Declaration, which was endorsed by all Western Balkan leaders in May 2018, the European Commission will support capacity building in digital trust and security (EC, 2018[51]). However, these initiatives are yet to be implemented.

Turkey is moving to proactively address the challenge of building trust in the digital economy through enhanced regulations, and holds the Presidency of the International Consumer Protection and Enforcement Network for 2017-18.[25] Moreover, Turkey's Ministry of Trade has developed a Trust Stamp in Electronic Commerce, which entered into force in 2017. Verified and audited e-commerce sites may display the mark if they meet criteria defined by the Communiqué on the Trust Stamp in E-Commerce, including data protection, awareness of e-commerce and payment systems regulations, clear information about company operators, and effective communication methods for customer demands and complaints. Recently the Ministry of Trade and the Turkish Union of Chambers and Commodity Exchanges signed a protocol allowing the latter to provide the Trust Stamp to SMEs.

In Serbia between 2014 and 2016, 66 SMEs were awarded the E-Trustmark, which was valid until November 2017 under the pilot E-Business Development programme funded by the EU. However, no concrete follow-up mechanism for this appears to be in place. The Center for Development of E-commerce and Protection of Consumers on the Internet will continue to accredit and deliver the E-Trustmark to entrepreneurs in Serbia (Delegation of the European Union to the Republic of Serbia, 2016[52]).

Implementation of e-commerce promotion programmes is patchy

Kosovo, Montenegro, North Macedonia and Turkey all have an established institution responsible for promoting e-commerce. North Macedonia, Serbia, Turkey and the Republika Srpska in Bosnia and Herzegovina have a website to provide easily accessible information on e-commerce. Albania and the Federation of Bosnia and Herzegovina are lagging behind the majority, as they lack an institution responsible for e-commerce promotion and a website to provide easily accessible information on e-commerce.[26]

Over the assessment period, only Turkey implemented a programme to encourage SMEs' uptake of e-commerce.

Previous programmes to promote e-commerce have had limited success. For example, the latest *OECD Competitiveness Outlook* assessment found that Albania, North Macedonia and Serbia offered financial support programmes for e-commerce and e-business, but that they broadly failed. In Albania this was due to the relatively small amount of money offered per applicant; in North Macedonia the reason was poor planning of voucher schemes, which led to exploitation of resources by only a few SMEs; and in Serbia the fault lay with the difficult financial bank-guarantee process (OECD, 2018[50]).

In Albania, the Digital Strategy 2015-2020 of the Ministry of Innovation and Public Administration contains the goal of increasing to 50% the share of businesses using e-commerce but there are no active measures in place to achieve it.[27] Montenegro's action plan for its SME Strategy 2018-2022 and envisions to promote e-commerce among SMEs. However, no programmes were implemented during the assessment period.[28]

Serbia's Ministry of Trade, Tourism and Telecommunications and the Ministry of Economy together carried out the EUR 2.5 million EU-funded E-Business Development programme from 2014 to 2017 (Delegation of the European Union to the Republic of Serbia, 2016[52]). As part of this programme, over 700 SME representatives attended e-business training sessions. The issue of trust in the digital economy was highlighted at 35 capacity-building workshops on the digital economy, e-business, e-commerce and combatting cyber-crime (Delegation of the European Union to the Republic of Serbia, 2016[52]).

Between 2013 and 2014 North Macedonia had a programme that offered vouchers for SMEs looking to develop e-commerce websites – this government programme supported 31 e-stores. Since then, there have been no further programmes targeting the uptake of e-commerce.

Meanwhile, Turkey has had significant success in implementing e-commerce promotion. Under the Programme to Support Market Research and Market Entry, the government supports SMEs' membership on e-commerce sites and online portals via a co-financing mechanism.[29] In particular, DG Exports supports companies' membership of e-commerce sites and online portals by covering 80% of their membership costs for up to three years. This programme is outlined in Turkey's 10th Development Plan, Export Strategy 2023 and SME Strategy 2015-2018. This programme is facilitated through broader umbrella organisations (e.g. chambers of commerce, exporters' unions) representing at least 250 companies which apply to the Ministry of Economy on behalf of the companies to register them onto e-commerce sites and online portals. It has a budget of TRY 33.8 million (EUR 6.1 million) to promote e-exports between 2018 and 2022. The Turkish Exporters Assembly has signed an agreement with the e-commerce platforms Alibaba and Kompass in a move that is expected to create opportunities for new entrants and foster SME participation in global e-commerce markets (Ministry of Economy of Turkey, 2017[53]). Most recently, the Ministry of Economy has launched its e-Export strategy which aims to increase exports through e-commerce (Ministry of Economy of Turkey, 2018[54]).

There are no e-commerce promotion programmes in the other Western Balkan economies yet, although Kosovo's Ministry of Economic Development is in the process of launching the Kosovo Digital Economy Programme (EUR 20 million) in co-operation with the World Bank. It aims to increase the presence of SMEs on the Internet so that they are ready to engage in electronic trade and tap into international markets (World Bank, 2018[55])

The way forward for promoting the use of e-commerce

- **Develop and strengthen formal support mechanisms** to encourage SME uptake of e-commerce. This can be done by making it easier to access e-commerce sites and portals via co-financing mechanisms, as is currently being done in Turkey. All economies should develop a strategic approach to strengthening e-commerce uptake by businesses in general, and SMEs in particular. More should be done to change perspectives on e-commerce by offering more information to SMEs on the benefits to their business of harnessing e-commerce's potential. A simple centralised website with readily accessible and relevant information on e-commerce could help SMEs better navigate and engage in the digital landscape and understand the regulations and support that apply to them.
- **Establish mechanisms to periodically evaluate and update regulatory frameworks** to keep pace with the evolving digital marketplace and to maintain a safe operational environment. Within this, it is crucial to **strengthen the collection of statistics on key performance indicators** in order to adapt regulatory frameworks accordingly and to design adequate programmes aimed at promoting SMEs' uptake of e-commerce. The Recommendation of the OECD Council on Consumer Protection in E-commerce provides seven guiding principles the WBT economies should follow when implementing their consumer protection frameworks for e-commerce (see Box 12.7).

Box 12.7. The Recommendation of the OECD Council on Consumer Protection in E-commerce: Implementation Principles

The OECD Council's 2016 Recommendation of the Council on Consumer Protection in E-commerce addresses new and emerging trends and challenges faced by consumers in today's dynamic e-commerce marketplace. Governments should, in co-operation with stakeholders:

1. Work towards improving the evidence base for e-commerce policy making through:
   - the collection and analysis of consumer complaints, surveys and other trend data
   - empirical research based on the insights gained from information and behavioural economics.
2. Review and, if necessary, adopt and adapt laws protecting consumers in e-commerce, having in mind the principle of technology neutrality.
3. Establish and maintain consumer protection enforcement authorities that have the authority and powers to investigate and take action to protect consumers against fraudulent, misleading or unfair commercial practices and the resources and technical expertise to exercise their powers effectively.
4. Work towards enabling their consumer protection enforcement authorities to take action against domestic businesses engaged in fraudulent and deceptive commercial practices against foreign consumers, and to take action against foreign businesses engaged in fraudulent and deceptive commercial practices against domestic consumers.
5. Encourage the continued development of effective co-regulatory and self-regulatory mechanisms that help to enhance trust in e-commerce, including through the promotion of effective dispute resolution mechanisms.
6. Encourage the continued development of technology as a tool to protect and empower consumers.
7. Facilitate the ability of consumers to access consumer education information and advice and to file complaints related to e-commerce.

Source: OECD (2016[56]), *OECD Recommendation of the Council on Consumer Protection in E-Commerce*, http://dx.doi.org/10.1787/9789264255258-en.

Conclusions

The WBT economies have made strides by strengthening the availability of support services in export promotion and introducing programmes to help SMEs integrate into global value chains. They have also – to varying degrees – laid down the foundations for supporting e-commerce by setting out and harmonising legal frameworks.

However, weaknesses remain, particularly in the areas of underfunded and untargeted export promotion agencies and weak support programmes for value chain integration. E-commerce programmes also remain poorly supported, and could benefit from targeted support given the small market size of the Western Balkan domestic economies.

The successful internationalisation of SMEs is closely tied to the implementation of the recommendations put forward in this chapter, as well as in the other chapters in this report, along with those identified in the previous assessment. Achieving higher productive standards, leveraging networks and improving access to trade finance will all ultimately help SMEs increase their market share and productive capacities to become resilient competitors in the world economy.

Notes

[1] In this SBA assessment cycle, in order to better understand how effective the SME policy implementation is and what its outcomes are, the assessment also included private sector insights gathered through a set of interviews with the owners and managers of SMEs and representatives from chambers of commerce in the Western Balkans and Turkey (see Annex C for more information). The questions for this dimension aimed to identify the main barriers to exporting and importing for SMEs, SMEs' assessessment of export promotion programmes, and whether there are barriers to SMEs using e-commerce.

[2] Turkish EEN consortia provide technical and consulting support on the following areas of expertise: EU legislation and standards, access to international markets, international public contracts, finance and funding, EU funding and application support, and intellectual property rights.

[3] KOSGEB's Internationalisation Support Programme provides 70% of funding to SMEs for export promotion and integration into global value chains. Support activities eligible for funding include employment; software and hardware; publicity; foreign fair and travel; test, analysis and certification; and service procurement. KOSGEB also supports 50-60% – up TRY 10 000 (around EUR 1 800) – of international trips and promotional activities under the General Support Programme. It also provides support for export promotion under its programme on the creation of international incubators.

[4] In 2017, the 16 provinces generated USD 53.6 billion in exports, amounting to one-third of Turkey's exports.

[5] For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

[6] In addition to the agency as co-ordinator, members of the EEN of the Republika Srpska include the Chamber of Commerce of the Republika Srpska, the University of Banja Luka, the University of East Sarajevo and the Innovation Center Banja Luka.

[7] Under this programme, between March 2017 and the time of writing, 63 SMEs received support to the value of RSD 37 million (EUR 305 000) for international business fairs, while one SME received assistance for a company visit abroad (EUR 4 600).

[8] Two SMEs have received support for the first component, to the value of RSD 1.1 million (EUR 9 100); while 65 SMEs were supported through the second component, for a total of RSD 30.3 million (EUR 249 600). In terms of monitoring, RAS's programmes have yet to be evaluated.

[9] Umbrella organisations include the Exporters' Union, chambers of commerce and industry, technological parks, and industrial zones.

[10] The Republika Srpska also possesses a network of representation offices in Austria, Belgium, Germany, Greece, Russia, Serbia and the United States, which organise periodic training for domestic SMEs in export opportunities to the relevant country.

[11] The bank also supports clusters for export promotion and foreign fairs at a 75% co-financing rate up to EUR 6 500.

[12] The agency plans to further tailor its offer of finance instruments to SMEs under its work plan for 2018.

[13] Turk Eximbank provides finance on commercial terms and in accordance with the OECD Arrangement on Officially Supported Export Credits.

[14] Interviews were conducted with staff from AIDA and the Ministry of Finance and Economy, who are involved in the funds' management. The evaluation benefitted from interviews with applicants and beneficiaries, as well as a questionnaire, shared among 50 SMEs.

[15] In Kosovo, this is not directly pursued as an objective. Instead, Kosovo's Competitiveness and Export Readiness Programme, financed by the World Bank, includes measures to improve national quality infrastructure to meet international standards, which represents an essential first step towards preparing SMEs to meet the standards of MNEs.

[16] Montenegro does not have an official body dedicated to supporting SME integration into global value chains. Instead, the Ministry of Economy has been implemented several projects with the support of international donors, such as Improving the Competitiveness of the Economy in Montenegro, carried out with the UNDP. Other small steps have been taken towards bringing production into alignment with international standards through the Regional and Local Competitiveness programme, which assists SMEs in covering the costs of accreditation activities through co-financing schemes of up to EUR 5 000 per applicant.

[17] The Federation of Bosnia and Herzegovina did not mobilise its allocated budget for supporting projects to develop clusters and value chains under the 2016-2018 Action Plan for the Development of SMEs in FBiH programme, citing low quality and number of applications.

[18] Turkey is currently in the process of developing the 11th Development Plan (2019-2030) which will include further measures to support integration into global value chains. The plan is being developed by a specialist commission which works on logistics, e-commerce and integrating SMEs into GVCs.

[19] Through the Enterprise Europe Network, KOSGEB helps to provide SMEs with consulting, mentoring and business-to-business services.

[20] Additional types of support included under the programme are employment support, publicity support, and foreign fair and travel support.

[21] Total activities covered by the programme include the operationalisation of science and technology parks and incubators, development of support services for innovative SMEs, joint science-economy projects, development of clusters, stimulation of business associations, and creation of value chains.

[22] These meetings included two international business meetings with EEN in co-operation with the Development Agency of Serbia. In August, RARS organised a meeting within the 11th Fair of Economy and Tourism in Derventa to inform and examine the possibilities of establishing a tourism cluster with representatives of tourism organisations from several different cities.

[23] From May 2012 to October 2014, AIDA was a partner of the European Commission-financed Cluster POLISEE (SEE) project aimed at developing and increasing the capacity of clusters in South East Europe.

[24] Most recently, AIDA promoted awareness of possible cluster linkages at the Cluster Matchmaking Conference on 21-22 September 2018, held in Stuttgart, Germany; and the EU-Western Balkans Cluster Policy Learning and Matchmaking Event in Zagreb, 22 and 23 November 2018, held in Croatia.

[25] A worldwide network of more than 60 consumer protection authorities on which the EC, OECD, and UNCTAD hold observer status.

[26] The Republika Srpska has a web page on the legal framework for e-commerce, which led to a slightly higher score for Bosnia and Herzegovina. Bosnia and Herzegovina's Information Strategy 2017-2021 issued by the Ministry of Communications and Transport highlights digital literacy, internet access, and increased online services, all of which could strengthen the operational environment for e-commerce.

However, no financial tools aimed at accelerating ICT adoption and digital practices by SMEs have been developed.

[27] SMEs in Albania can apply for funds for e-commerce through the Competitiveness Fund; however, no funds have been disbursed for this purpose in recent years.

[28] The SME strategy 2018-2022 action plan anticipates the following measures for promoting e-commerce among SMEs, to be rolled out between 2019 and 2022: 1) conducting research on enterprises using e-commerce in their business operations; 2) creating a database of companies using e-commerce; 3) organising educational sessions on e-commerce; and 4) organising support for MSMEs in order to meet the requirements for e-Trustmark standards. Likewise, Montenegro's Information Society Development Strategy 2016-2020 lists strategic indicators for measuring e-commerce adoption. Despite this, programmes to increase SME e-commerce adoption remain altogether absent.

[29] Under the Directive on Supporting the Certificates of Market Access.

References

Asian Development Bank (2015), *Integrating SMEs into Global Value Chains: Challenges and Policy Actions in Asia*, Asian Development Bank, Mandaluyong City, Philippines, https://www.adb.org/publications/integrating-smes-global-value-chains (accessed on 1 October 2018). [3]

BIS / DFID (2011), "Trade promotion", *Trade and Investment Analytical Papers*, No. 8 of 18, Department for Business Innovation and Skills; Department for International Development, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/32471/11-858-trade-promotion.pdf. [7]

Delegation of the European Union to the Republic of Serbia (2016), *E-business in Serbia Improves with EU Support*, Delegation of the European Union to the Republic of Serbia, https://europa.rs/e-business-in-serbia-improves-with-eu-support/?lang=en (accessed on 10 January 2019). [52]

Duranton, G. (2011), "California Dreamin': The feeble case for cluster policies", *Review of Economic Analysis*, Vol. 3/1, pp. 3-45. [46]

EBRD (2018), *Trade Facilitation Programme: Overview*, European Bank for Reconstruction and Development, https://www.ebrd.com/work-with-us/trade-facilitation-programme.html (accessed on 24 September 2018). [22]

EC (2018), *EIC Pilot Funding*, European Commission, https://ec.europa.eu/research/eic/index.cfm?pg=funding (accessed on 22 January 2019). [14]

EC (2018), *Enterprise Europe Network website*, European Commission, https://een.ec.europa.eu/ (accessed on 22 January 2019). [13]

EC (2018), *European Cluster Collaboration Platform website*, European Commission, https://www.clustercollaboration.eu/ (accessed on 6 December 2018). [41]

EC (2018), *EU-Western Balkans Summit: Sofia Declaration, 17 May 2018*, European Commission, Brussels, http://www.consilium.europa.eu/media/34776/sofia-declaration_en.pdf (accessed on 4 February 2019). [51]

EC (2017), *2017 SBA Fact Sheet: Turkey*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/turkey_sba_fs_2017.pdf (accessed on 31 October 2018). [33]

EC (2016), *Smart Guide to Cluster Policy*, European Commission, Brussels, http://dx.doi.org/10.2873/729624. [34]

EIB (2016), *Bosnia and Herzegovina: Assessment of Financing Needs of SMEs in the Western Balkans Countries*, European Investment Bank, Luxembourg, http://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_bosnia_herzegovina_en.pdf. [20]

EIB (2016), *Kosovo: Assessment of Financing Needs of SMEs in the Western Balkans Countries*, European Investment Bank, Zurich, http://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_kosovo_en.pdf. [19]

Eurostat (2018), *Eurostat (database)*, Eurostat, https://ec.europa.eu/eurostat/data/database (accessed on 14 September 2018). [49]

GIZ (2018), *Creating Employment through Export Promotion*, Gesellschaft für Internationale Zusammenarbeit, https://www.giz.de/en/worldwide/29972.html (accessed on 25 September 2018). [16]

Government of Montenegro (2016), *Industrial Policy of Montenegro to 2020*, Ministry of Economy, Podgorica. [35]

Grandon, E. and J. Pearson (2004), "Electronic commerce adoption: An empirical study of small and medium US businesses", *Information and Management*, Vol. 42/1, pp. 197-216, http://dx.doi.org/10.1016/j.im.2003.12.010. [47]

Guarantee Fund of the Republic of Srpska (2015), *Guarantee-Credit Line for Export Support*, Guarantee Fund of the Republic of Srpska website, http://garantnifondrs.org/language/en/%D0%B3%D0%B0%D1%80%D0%B0%D0%BD%D1%82%D0%BD%D0%BE-%D0%BA%D1%80%D0%B5%D0%B4%D0%B8%D1%82%D0%BD%D0%B0-%D0%BB%D0%B8%D0%BD%D0%B8%D1%98%D0%B0-%D0%B7%D0%B0-%D0%BF%D0%BE%D0%B4%D1%80%D1%88%D0%BA%D1%83-%D0%B8-3/?lang=en (accessed on 6 November 2018). [21]

ITC (2015), *From Export Promotion to Internationalization: The Role of Trade Promotion Organizations in the Evolving Global Economy*, International Trade Centre, Geneva, http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/AssetPDF/tpo-paper.pdf. [28]

Javorcik Smarzynska, B. and M. Spatareanu (2005), “Do foreign investors care about labor market regulations?”, *Review of World Economics*, Vol. 141/3, pp. 375-403, http://dx.doi.org/10.1007/s10290-005-0035-7. [27]

KIESA (2018), *KIESA Services*, Kosovo Investment and Enterprise Support Agency, https://kiesa.rks-gov.net/page.aspx?id=2,3 (accessed on 2 October 2018). [15]

Lederman, D., M. Olarreaga and L. Payton (2010), “Export promotion agencies: Do they work?”, *Journal of Development Economics*, Vol. 91/2, pp. 257-265, https://doi.org/10.1016/j.jdeveco.2009.09.003. [9]

MAP (2017), *Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six*, Multi-annual Action Plan, Sarajevo, https://www.rcc.int/docs/383/consolidated-multi-annual-action-plan-for-a-regional-economic-area-in-the-western-balkans-six (accessed on 4 February 2019). [6]

Memi, A. and E. Shkodrani (2017), *Evaluation and Analysis of Government Support Funds for MSME Operated by AIDA*, HM&H, Tirana. [23]

Ministry of Economy of Montenegro (2017), *Business Stimulating Programs*, Ministry of Economy of Montenegro, Podgorica, http://www.mek.gov.me/en/ministry/activities/173243/Ministry-of-Economy-of-Montenegro-published-brochure-business-stimulating-programs.html (accessed on 14 January 2019). [37]

Ministry of Economy of Turkey (2019), *İzmir Shoe Cluster*, Ministry of Economy of Turkey, http://www.kumelenme.gov.tr/kumeler/izmir-ayakkabicilik-kumesi/ (accessed on 23 January 2019). [40]

Ministry of Economy of Turkey (2019), *UR-GE Turkey website*, Ministry of Economy of Turkey, http://urgeturkey.com/en/ (accessed on 23 January 2019). [39]

Ministry of Economy of Turkey (2018), *e-İhracat Stratejisi ve Eylem Planı (2018-2020) [e-Export Strategy and Action Plan 2018-20]*, Ministry of Economy of Turkey, Ankara, http://www.resmigazete.gov.tr/eskiler/2018/02/20180206-6.pdf. [54]

Ministry of Economy of Turkey (2017), “Turkish exporters to set foot on the global e-commerce market”, *Focus Business Turkey* April, p. 1, https://trade.gov.tr/data/5b92385e13b87613646659a2/81907c37d63299291701a42e04a4d87b.pdf. [53]

Ministry of Trade of Turkey (2018), *Bakan Pekcan: 16 ilde ihracat destek ofisleri kuruyoruz [Minister Pekcan: We are establishing export support offices in 16 provinces]*, Ministry of Trade website, https://www.ticaret.gov.tr/haberler/bakan-pekcan-16-ilde-ihracat-destek-ofisleri-kuruyoruz (accessed on 19 November 2018). [11]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, Competitiveness and Private Sector Development, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264298576-en. [50]

OECD (2018), "Fostering greater SME participation in a globally integrated economy", *SME Ministerial Conference Discussion Paper*, OECD, 22-23 February 2018, Mexico City, https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Plenary-Session-3.pdf (accessed on 21 January 2019). [25]

OECD (2018), *Glossary for Barriers to SME Access to International Markets*, OECD website, http://www.oecd.org/cfe/smes/glossaryforbarrierstosmeaccesstointernationalmarkets.htm (accessed on 5 September 2018). [2]

OECD (2018), *OECD Trade Facilitation Indicators*, OECD website, http://www.oecd.org/trade/facilitation/indicators.htm (accessed on 29 November 2018). [57]

OECD (2017), *OECD Reviews of Innovation Policy: Costa Rica 2017*, OECD Reviews of Innovation Policy, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264271654-en. [44]

OECD (2016), *Competitiveness in South East Europe: A Policy Outlook*, Competitiveness and Private Sector Development, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264250529-en. [8]

OECD (2016), *OECD Recommendation of the Council on Consumer Protection in E-Commerce*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264255258-en. [56]

OECD (2016), *OECD Reviews of Innovation Policy: Malaysia 2016*, OECD Reviews of Innovation Policy, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264255340-en. [45]

OECD (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/9789264254473-en. [1]

OECD (2008), *OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes*, OECD Publishing, Paris, https://doi.org/10.1787/9789264040090-en (accessed on 25 September 2018). [24]

OECD (2007), *Enhancing the Role of SMEs in Global Value Chains: OECD Tokyo Statement on Strengthening the Role of SMEs in Global Value Chains*, OECD, Paris, https://www.oecd.org/cfe/smes/38774814.pdf (accessed on 1 August 2018). [42]

OECD / WTO / World Bank (2014), *Global Value Chains: Challenges, Opportunities, and Implications for Policy*, OECD, WTO and the World Bank, https://www.oecd.org/tad/gvc_report_g20_july_2014.pdf. [26]

RAS (2017), *Create Life: Public Call for Participation in the Support Program for the Development of SMEES' Competitiveness*, Development Agency of Serbia, https://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-participation-in-the-support-program-for-the-development-of-smees-competitiveness (accessed on 22 January 2019). [32]

Raymond, L. and F. Bergeron (2008), "Enabling the business strategy of SMEs through e-business capabilities: A strategic alignment perspective", *Industrial Management & Data Systems*, Vol. 108/5, pp. 577-595, http://dx.doi.org/10.1108/02635570810876723. [48]

Smarzynska, B. and M. Spatareanu (2014), "Czech suppliers of multinational corporations: Benefits and challenges", No. 90807, World Bank Group, Washington, DC, http://documents.worldbank.org/curated/en/504861468026113344/Czech-suppliers-of-multinational-corporations-benefits-and-challenges (accessed on 19 February 2019). [43]

Sperlich, S., V. Trachsel and M. Olarreaga (2017), "Export promotion: What works?", *Development Policies Working Paper*, No. 184, Fondation pour les études et recherches sur le développement international, Clermont-Ferrand, http://www.ferdi.fr/sites/www.ferdi.fr/files/publication/fichiers/p184_ferdi-_olarreaga-sperlich-trachsel_0.pdf. [10]

SPIRIT Slovenia (2017), *Letno Porocilo 2016 [Annual Report 2016]*, SPIRIT Slovenia, Ljubljana, http://www.spiritslovenia.si/resources/files/Letno_porocilo_SPIRIT_Slovenija_2016.PDF. [12]

TASD (2018), *Footwear Industrialists Association of Turkey website*, http://www.tasd.com.tr/en/index.php (accessed on 23 January 2019). [38]

UNCTAD (2010), *Integrating Developing Countries' SMEs into Global Value Chains*, United Nations Conference on Trade and Development, New York and Geneva, http://unctad.org/en/Docs/diaeed20095_en.pdf (accessed on 1 August 2018). [29]

UNIDO (2015), *Cluster Development in Montenegro*, United Nations Industrial Development Organization, Geneva, https://www.unido.org/sites/default/files/2015-12/Montenegro_Brochure_FINAL2014pdf_0.pdf (accessed on 14 January 2019). [36]

WEF (2018), *The Global Competitiveness Index Dataset 2007-2017*, World Economic Forum, Geneva, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/ (accessed on 24 July 2018). [30]

WEF (2017), *The Global Competitiveness Report: 2017-2018*, World Economic Forum, http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf (accessed on 6 November 2018). [4]

World Bank (2018), *Project Appraisal Document on a Proposed Credit in the Amount of €20,700,000 to the Republic of Kosovo for a Kosovo Digital Economy (KODE)*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/249951531020771941/pdf/Kosovo-KODE-PAD-06132018.pdf. [55]

World Bank (2018), *World Bank Open Data (database)*, https://data.worldbank.org/ (accessed on 19 November 2018). [58]

World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*, World Bank, Washington, DC, http://dx.doi.org/10.1596/978-1-4648-1146-3. [5]

World Bank (2017), *Project Appraisal Document on a Proposed Credit in the Amount of EUR 14.3 million to the Republic of Kosovo for a Competitiveness and Export Readiness Project*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/619361495332051749/pdf/Kosovo-Comp-PADrevised-05012017.pdf (accessed on 27 September 2018). [31]

World Bank (2014), *Turkey - Innovative Access to Finance Project*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/634551468172770162/Turkey-Innovative-Access-to-Finance-Project. [18]

WTO (2016), *Trade Finance and SMEs: Bridging the Gaps in Provision*, World Trade Organization, https://www.wto.org/english/res_e/booksp_e/tradefinsme_e.pdf (accessed on 5 September 2018). [17]

Annex 12.A. Trade facilitation performance

The OECD Trade Facilitation Indicators (TFIs) database specifies 11 aspects of trade facilitation: 1) information availability; 2) trade community involvement; 3) advance rulings; 4) appeal procedures; 5) fees and charges; 6) documents; 7) automation; 8) procedures; 9) internal border agency co-operation; 10) external border agency co-operation; and 11) governance and impartiality. The TFIs can help policy makers prioritise trade facilitation actions and mobilise technical assistance and capacity building in a targeted way (OECD, 2018[57]).

Of the six WBT economies for which data are available, Turkey hast the highest average score (1.48 out of 2) on the TFIs and performs best on 7 of the 11 aspects: information availability, trade community involvement, appeal procedures, automation, procedures, internal border agency co-operation, and governance and impartiality. On external border agency co-operation, it performs on pair with Montenegro, which scores highest on documents. Of the six WBT economies, North Macedonia scores highest on advance rulings.

Table 12.A.1.lists the TFI areas in which the WBT economies improved or deteriorated between 2015 and 2017. Overall, the areas of improvement heavily outweigh the areas where performance has worsened, except for North Macedonia.

Annex Table 12.A.1. WBT performance on Trade Facilitation Indicators (2015-17)

	Areas of improvement	Areas of deterioration
ALB	- Information availability - Fees and charges - Appeal procedures - Procedures - Documents - Automation - Governance and impartiality	- Involvement of trade community - Advance rulings
BIH	- Automation - Information availability - Fees and charges - Documents - Automation - Procedures - Governance and impartiality	- Involvement of trade community
MKD	- Automation - Documents	- Governance and impartiality - Information availability - Involvement of trade community - Appeal procedures - Fees and charges - Procedures
MNE	- Information availability - Involvement of trade community - Appeal procedures	

	- Documents - Automation - Procedures - Governance and impartiality	
SRB	- Appeal procedures - Documents - Governance and impartiality - Information availability	- Fees and charges
TUR	- Information availability - Involvement of trade community - Fees and charges - Documents - Automation - Procedures	- Advance rulings - Appeal procedures

Note: Only areas of improvement and degradation are noted in the table. Data for Kosovo not available.
Source: OECD (2018[57]), *OECD Trade Facilitation Indicators*, www.oecd.org/trade/facilitation/indicators.htm (accessed on 29 November 2018).

Between 2014 and 2017, the costs of importing and exporting due to border compliance remained stagnant or even increased across most of the WBT economies (Table 12.A.2).

Annex Table 12.A.2. Cost to import/export in terms of border compliance (2014 and 2017)

USD

	Cost to import		Cost to export	
	2014	**2017**	**2014**	**2017**
ALB	52.00	77.00	33.00	55.00
BIH	109.00	109.00	106.00	106.00
KOS	128.00	128.00	153.00	105.00
MKD	150.00	150.00	103.00	103.00
MNE	306.00	306.00	158.00	158.00
SRB	52.00	52.00	47.00	47.00
TUR	267.00	267.00	376.00	376.00
EU average	29.21	29.21	85.11	85.21
OECD average	114.20	114.20	152.53	152.53

Source: World Bank (2018[58]), *World Bank Open Data (database)*, https://data.worldbank.org/.

The 2018 *OECD Competitiveness Outlook* assessment of the six Western Balkan economies found that they have taken steps to remove technical barriers to trade by aligning standardisation and accreditation systems with international good practice (OECD, 2018[50]). However, the assessment also found that non-tariff barriers related to sanitary and phytosanitary measures and regulatory barriers to trade in services are still restricting import and export volumes in the six economies.

Part II. Small Business Act assessment: Western Balkans and Turkey profiles

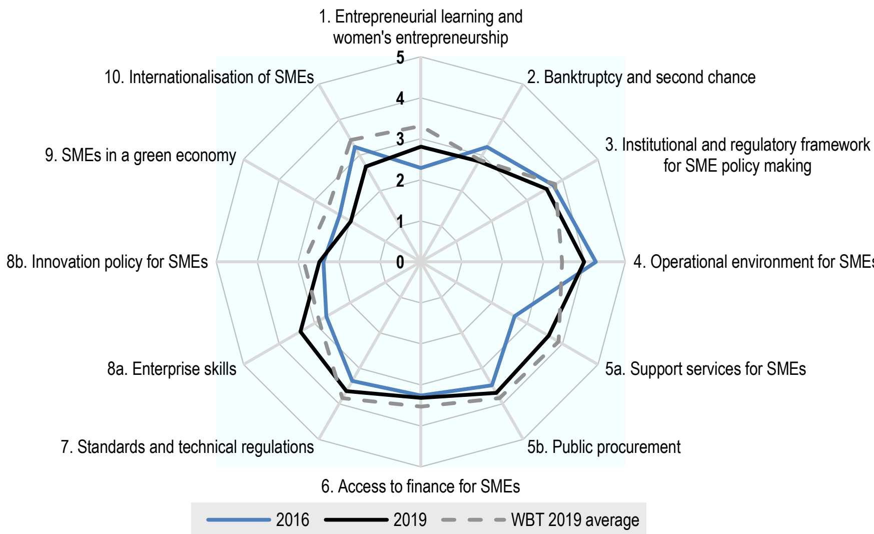
Chapter 13. Albania: Small Business Act profile

This chapter covers in depth the progress made by Albania in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Albania's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the Albanian economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 13.1. Small Business Act scores for Albania (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Albania has made moderate progress in implementing the Small Business Act (SBA) since publication of the previous report, the *SME Policy Index: Western Balkans and Turkey 2016* (Table 13.1) Most of the developments during the reference period relate to improving delivery of public services and simplifying regulations. These have helped to reduce the administrative burden on small and medium-sized enterprises (SMEs), as well as improving the overall business environment. The main achievements that have helped Albania improve its performance in this assessment are as follows:

Procedures for regulatory impact analyses (RIAs) have been set up. Albania introduced the requirement to conduct RIAs when adopting laws and by-laws in 2018. Up to 15 RIAs are expected to be carried out by the end of 2018. For the first time, the impact of new legislation on business competitiveness will be gauged.

The legal framework on insolvency proceedings has been strengthened. The new Law on Bankruptcy, adopted in 2017, includes many features left out of previous legislation and now provides the basis for efficient insolvency procedures. By allowing debt reorganisation, the new legal framework is expected to resolve insolvencies faster and more cheaply.

Registering a business and applying for licences and permits have been streamlined. Following the merger of the national registration and licensing centres to create the National Business Centre (NBC) in 2016, entrepreneurs can now obtain services such as business registration, permits and licences in just “one stop”. The NBC’s establishment has played a pivotal role in reducing unnecessary bureaucracy and procedures for SMEs.

Digitalisation of government services has reduced the administrative burden on SMEs. The e-Albania system, managed by the NBC, allows businesses to access more than 300 relevant services on line. Most notably, taxes can be filed and paid on line, reducing the compliance burden on SMEs.

Strengthened quality infrastructure has improved SME trade competitiveness. Under the National Plan for European Integration 2017-2020, Albania has made rapid strides in transposing European Union (EU) standards and strengthening its institutional capacities for quality infrastructure. This will improve SMEs' capability to compete in EU and other international markets.

Priority areas

Despite the progress mentioned above, the majority of the SME policy areas in Albania have visibly stagnated. Implementation of its strategies has slowed down, and few new initiatives targeting SMEs have been launched. The scope and size of the support programmes provided to SMEs remain relatively moderate, and leave room for further enhancement. This report identifies eight priority areas in which Albania should intensify its activities:

- **Underpin the institutional capacity of institutions responsible for SME policies.** Effective implementation of the SBA principles hinges on building Albania's human resources and institutional capacity. By making the best use of accumulated institutional memory, staff should be continuously trained with a view to increasing their competence in understanding enterprises' needs and developing the necessary measures.
- **Improve SMEs' uptake of business support services by redesigning existing schemes.** SMEs perceive the numerous schemes offered by the Albanian Investment Development Agency (AIDA) to be cumbersome and they are further deterred from applying by the rather low amounts of financial support on offer. There is a pressing need for well-designed and properly funded instruments to support SMEs.
- **Step up the support for innovation infrastructure to advance business-academia collaboration**. Many vital elements of an innovation ecosystem are missing or insufficient in Albania, including technology transfer offices and science and technology parks. The lack of these facilities is an obstacle to knowledge transfer and the commercialisation of new products and services.
- **Increase awareness of alternatives to bank finance.** Although the underlying legal frameworks are all in place, uptake of non-bank financial instruments remains very limited, particularly factoring services. A centralised information platform could be pivotal for guiding SME owners and managers towards financing opportunities other than standard bank loans.
- **Embed entrepreneurship learning in school curricula.** Deficiencies in entrepreneurial learning remain in both the formal and non-formal education systems. Integrated government action is warranted to overcome these by involving the relevant stakeholders, most notably businesses.
- **Provide guidance to SMEs on adopting environmentally sound practices**. SMEs need to be nudged to adopt resource efficiency measures. This will require activities that raise SMEs' awareness about how resource efficiency can offer high returns for low-cost investments. This would constitute the first milestone on Albania's long path towards a green economy.

- **Roll out supplier development programmes.** AIDA's current financial schemes fall short of truly helping SMEs integrate into European and global value chains. New support programmes need to be developed that can help underpin links between SMEs and multinational enterprises.
- **Increase support to stimulate e-commerce practices among SMEs, as foreseen in the Digital Agenda.** Albania lacks an institution responsible for e-commerce promotion and a centralised website that provides easily accessible information on e-commerce. The concrete programmes foreseen under the Digital Agenda Strategy are yet to be implemented.

Economic context and role of SMEs

Economic overview

Albania is an upper-middle income economy with a population of 2.87 million and an income per capita of USD 4 537 (at current prices in 2017), the second-lowest in the Western Balkans. Although the economy is led by the services sector, industry and agriculture still play an important role. In 2017, the services sector contributed 47.3% to total gross value added, followed by industry (including construction) at 21.1% and agriculture at 19% (World Bank, 2018[1]). However, agriculture employed 40.3% of the population, far larger than its contribution to the economy, and slightly less than services at 41.1%. The share of industry in total employment was 18.6% (ILO, 2018[2]).

The economy is expanding, driven by a favourable domestic and external environment. Real growth in gross domestic product (GDP) reached 3.8% in 2017, mainly reflecting increases in capital investments, but also rising private consumption (Table 13.1). Private consumption has picked up thanks to accelerating job creation, increasing wages and growing household credit. Capital investments have gained momentum due to two energy-related projects, the Devoll hydropower plants and the Trans Adriatic Pipeline. However, growth is expected to become more subdued, with the two energy projects projected to end by 2020. Albania's current account deficit remained sizeable at 7.5% of GDP in 2017, although it has fallen from 10.8% in 2014 (EBRD, 2018[3]). Net exports increased to 31.5% of GDP in 2017; imports declined slightly but remained stubbornly high at 46.6% of GDP (EC, 2018[4]). Net exports are projected to increase at a solid place in light of growing demand from the EU market, but their contribution to GDP growth is expected to be fully offset by the growth in imports (EC, 2018[5]).

Albania's export basket continues to be highly concentrated. Just three product categories accounted for 76% of exported goods in 2017:[1] textiles and footwear (43.6%); minerals, fuel and electricity (16.6%); and construction materials and metals (15.9%) (EC, 2018[5]). This lack of diversification and the low-tech character of the export basket further contribute to the large external deficit, leaving the economy exposed to industry-specific shocks. The current account deficit is offset by a large volume of remittances by Albanians living abroad – reaching 8.6% of GDP in 2017 (Table 13.1). A surge in tourism exports also bodes well for Albania's current account balance and the tourism sector is projected to expand by an average of 7.8% a year over the next three years (EC, 2018[5]).

Albania successfully concluded a three-year Extended Fund Facility programme with the International Monetary Fund (IMF) in 2017, contributing to enhanced fiscal stability and a falling level of public debt, although it is still high at 71% of GDP. Persistently low levels of tax revenue remain a challenge. Tax revenue accounted for 22.5% of Albania's GDP in 2015, significantly lower than the OECD average of 34.3% (OECD, 2018[6]).

Inflation remained low at 2% in 2017 and well below the Bank of Albania's target rate of 3% in the medium term (Table 13.1). Despite interest rates remaining low – at 1.25% since May 2016 – and the banking sector's ample liquidity, bank lending to businesses remains subdued. Citing appreciation of the national currency (the Albanian lek or ALL), and the need for additional capital to meet higher demand for loans, the Bank of Albania decided to further cut its key interest rate by 25 basis points in June 2018 to a historic low of 1% (Bank of Albania, 2018[7]).

In 2017, the unemployment rate fell by 1.5 percentage points to 14.1% (Table 13.1) while the labour force participation rate increased to 58%, the highest in the Western Balkans and Turkey (WBT) region.[2] In 2015, male activity rates were 64.3%, above those of EU Member States, but female participation in the labour market was 47.3%, lower than the EU average of 51.5% (ILO, 2018[2]). Albania was the first economy in the region whose labour participation rate rose above 50% (World Bank, 2018[8]). Albania's youth unemployment is the lowest in the Western Balkans region, at 25.9% (World Bank, 2018[8]).

Albania's improving performance in science, reading and mathematics, according to the results of the 2015 OECD Programme for International Student Assessment (PISA), indicates it is paying increasing attention to helping its youth improve their skills, and ease their access to the job market. Since 2009, Albania's mean performance has improved by 37 score points in science and 36 score points in mathematics, which are respectively the third largest and largest improvements among education systems with comparable data (OECD, 2018[6]). Despite these improvements, its latest PISA results are still below the OECD and EU averages.

Table 13.1. Albania: Main macroeconomic indicators (2013-18)

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth[1]	% year-on-year	1.0	1.8	2.2	3.4	3.8	3.6*
Inflation[1]	% average	1.9	1.6	1.9	1.3	2.0	2.1*
Government balance[1]	% of GDP	-5.2	-5.2	-4.1	-1.8	-2.0	-2.0*
Current account balance[1]	% of GDP	-9.3	-10.8	-8.6	-7.6	-7.5	-7.5**
Exchange rate LEK/EUR[1]	Value	140.3	140.1	139.7	137.4	134.1	128.6***
Exports of goods and services[1]	% of GDP	28.9	28.2	27.3	28.9	31.5	34.0**
Imports of goods and services[1]	% of GDP	47.0	47.2	44.5	45.7	46,6	49.7**
Net FDI[1]	% of GDP	9.6	8.2	8.0	8.7	8.6	9.7**
External debt[2]	% of GDP	60.5	56.1	63.0	61.9	63.2	..
Gross international reserves[1]	Ratio of 12 months imports of goods moving average	5.2	5.3	6.9	7.0	6.7	..
Unemployment[1]	% of total active population	16.4	17.9	17.5	15.6	14.1	13.4*
National GDP[3]	EUR billion	9.63	9.97	10.27	10.74*	11.58*	..

Note: *: projection. **: average of 1st and 2nd quarter. ***: average of 1st, 2nd and 3rd quarter.
Sources: [1] EC (2018[4]), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", http://dx.doi.org/10.2765/319761; [2] EBRD (2017[9]), Transition Report 2017-18: Sustaining Growth, www.ebrd.com/transition-report-2017-18; [3] Eurostat (2018[10]), *National Accounts (Including GDP)*, https://ec.europa.eu/eurostat/web/national-accounts/data/database.

Business environment trends

In spite of a positive economic outlook, Albania's business environment continues to present significant structural impediments to strengthening competitiveness and fostering growth. As indicated in Albania's Economic Reform Programme 2018-2020*,* the main problems are informality and high levels of perceived corruption (Box 13.1).

Box 13.1. Economic Reform Programmes

Since 2015, all EU candidate countries and potential candidates are obliged to prepare Economic Reform Programmes (ERPs). ERPs prepare the enlargement countries for their future participation in the EU's economic policy co-ordination procedures. They also play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation.

The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda. The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

1. public finance management
2. energy and transport markets
3. sectoral development
4. business environment and reduction of the informal economy
5. trade-related reform
6. education and skills
7. employment and labour markets
8. social inclusion, poverty reduction and equal opportunities.

The European Commission and the European Central Bank then assess these seven programmes. This forms the basis for a multilateral economic policy dialogue involving the enlargement countries, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include country-specific policy guidance reflecting the most pressing economic reform needs.

The findings of the Small Business Act assessment for the Western Balkans and Turkey provide the analytical background and guidance to the seven EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

Source: EC (2018[11]), *Economic Reform Programmes: Western Balkans and Turkey,* https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf.

Due to Albania's large informal sector, the tax burden is borne by a relatively small number of enterprises, giving informal enterprises an unfair advantage. As a result, formal enterprises may be unable to enter into or expand within a market because they simply cannot compete with the lower business costs of their informal competitors. Albania also performs below par for corruption levels. The country scored 36 in Transparency International's 2018 *Corruption Perceptions Index*, which positioned it as the 99th least corrupt economy out of 180 countries and territories (Transparency International, 2019[12]).[3]

Other vulnerabilities include insufficient clarity over land ownership, weak contract enforcement and limited access to finance, especially for SMEs (EC, 2018[5]). Entrepreneurial skills remain a very acute issue, further exacerbated by endemic brain drain. In addition, interviews conducted with SME owners for this assessment indicated poor institutional support – further aggravated by the restructuring of the public administration following the parliamentary elections in June 2017. Although this restructuring is perceived to be temporary, it has reduced the capacity of public institutions and created uncertainty for SMEs in interacting with government.

Currently, Albania's foreign direct investment (FDI) regime is less restrictive than that of the average OECD or EU economy according to the OECD *FDI Regulatory Restrictiveness Index* (OECD, 2017[13]). However, it is less open to FDI than all the other Western Balkan economies (OECD, 2016[14]). To remove FDI restrictions further, the government plans to adopt a unified investment law by the end of 2018. Among other principles, the new law will further guarantee that the government will not expropriate foreign and domestic investment except in circumstances where it is a last resort, and in line with the principles of international law. The new law also aims to put into place the principles of international investment treaties and encourage and improve investor confidence by creating mechanisms for handling investor grievances to be managed by the Albanian Investment Development Agency (AIDA).

Table 13.2. Recent business reforms in Albania

	Reforms making it easier to do business	Reforms making it harder to do business
Doing Business 2019	**Enforcing contracts became easier** by amending the code of civil procedure to establish a simplified procedure for small claims and introduce time standards for certain court events.	None
Doing Business 2018	**Access to credit has been strengthened** by amending the Albanian Civil Code and the Law on Securing Charges, and by adopting a new Insolvency Law. It is now possible to grant a security interest over any type of movable property – including tangible and intangible assets – and secured creditors are given absolute priority within insolvency proceedings. **The labour market regulations have been amended** to reduce the maximum number of hours allowed in a working week and to mandate that women and men be given equal remuneration for work of equal value.	None
Doing Business 2017	**Dealing with construction permits became easier** by resuming the issuing of building permits and streamlining the process of receiving the final inspection and compliance certificate. **Getting electricity became easier** by speeding up the process for obtaining a new connection. **Paying taxes became easier** by introducing an online system for filing and paying taxes.	**Trading across borders became more difficult** by introducing mandatory scanning inspections for exports and imports, which increased the time and cost for border compliance.

Note: Only reforms which had either a positive or a negative impact on conducting business were considered.
Source: World Bank (2018[15]), *Business Reforms in Albania*, www.doingbusiness.org/en/reforms/overview/economy/albania.

In the World Bank's *Doing Business 2019*, Albania moved up two places compared to the previous report, and now ranks 63rd (World Bank, 2018[16]). However it is still lagging behind all the regional economies except Bosnia and Herzegovina. It has made progress in enhancing access to credit and strengthened its insolvency regime with the new insolvency law that entered into force in May 2017. Albania has also made it easier to get electricity, although its power supply remains notably unreliable, with relatively long electricity blackouts. Table 13.2 summarises the reforms affecting the ease of doing business in Albania.

EU accession process

With the Stabilisation and Association Agreement (SAA), which was signed in June 2006 and entered into force in April 2009, the EU's co-operation with Albania has intensified. The SAA provides the framework for relations between the EU and Albania for establishing a free trade area, as well as identifying common political and economic objectives. Albania submitted its formal application for EU membership in 2009 and the European Commission recommended granting EU candidate status to Albania in October 2012, subject to completing key measures in the areas of judicial and public administration reform and revising the parliamentary rules of procedures. Albania was granted EU candidate status in June 2014.

February 2018 saw renewed momentum for EU accession among the Western Balkans economies following a statement from the European Commission seeking "a credible enlargement perspective for and enhanced EU engagement with the Western Balkans" (EC, 2018[17]). The EC launched its new Western Balkans accession strategy, which details six flagship reform initiatives in the areas of rule of law, security and migration, increased connectivity and neighbourly relations.

In June 2018, the General Affairs Council of the Council of the European Union set out the path towards opening accession negotiations with Albania in June 2019. However, the Council also underlined the critical need for Albania to further consolidate its progress on judicial reform, in particular through the vetting of judges and prosecutors, and to deliver further tangible results in the fight against corruption at all levels and in combatting organised crime.

In the meantime, EU progress reports assess the readiness of Albania to move closer to the EU *acquis*. The findings and recommendations published in the *SME Policy Index: Western Balkans and Turkey* provide monitoring and guidance for Albania to prepare for and meet the further requirements related to Chapter 20, "Enterprise and Industrial Policy" when negotiating its accession into the EU. This chapter aims to strengthen competitiveness, facilitate structural change and encourage a business-friendly environment. Implementation of the ten SBA principles is one of the requirements under the chapter.

According to the latest report in 2018, Albania is assessed as being moderately prepared for a market-based economy, which includes its ability to withstand market forces and competitiveness from the EU and its capacity to implement Chapter 20 (EC, 2018[18]). The report calls on Albania to:

- take steps to enhance SMEs' ability to handle new technologies and business processes
- raise the effectiveness of the implementation of the triple-helix action plan
- speed up the full alignment of its legislation with the late payment directive
- pursue the reduction of the regulatory burden more ambitiously and vigorously address the main business environment challenges in the policy areas concerned.

EU financial support

The EU is the largest provider of financial assistance to Albania. Under the Instrument for Pre-Accession Assistance (IPA) it has allocated a total of EUR 1.24 billion for the period 2007-20 (EC, 2018[19]). Since 2009 Albania has also received EUR 135 million from the EU for sector budget support programmes and EUR 359 million in European Investment Bank loans. Following the 2015 floods in Albania, the EU also allocated EUR 14.9 million in disaster relief (EC, 2018[19]).

In 2015, Albania joined the EU's Competitiveness for Enterprises and Small and Medium-Sized Enterprises (COSME) programme. COSME aims to make it easier for SMEs to access finance during all phases of their lifecycle – creation, expansion or business transfer. More recently, the European Investment Fund (EIF) and Raiffeisen Bank established a guarantee agreement to support SMEs in Albania via a guarantee facility under the Western Balkans Enterprise Development and Innovation Facility (WB EDIF). The Western Balkans Guarantee Facility agreement aims to facilitate access to finance for Albanian SMEs by providing credit coverage on a EUR 17 million portfolio of SME loans for the period 2017-19 (EIF, 2017[20]).

Financial support for SMEs is also provided through raising capital for start-ups and fostering their skills and financial education. This support is offered and co-ordinated through the EIF, the Western Balkans Investment Framework, the European Investment Bank, the European Bank for Reconstruction and Development, and the WB EDIF through various other programmes, including InnovFin (Horizon 2020), the Programme for Employment and Social Innovation, European Structural and Investment Funds, and the SME Instrument.

SMEs in the national economy

Albania's 2002 Law No. 8957 on Small and Medium Enterprises defines SMEs according to their number of employees, annual turnover and balance sheet. In 2008, the definition was amended by Law No.10042 to align it with the EU's definition in terms of employee numbers (Table 13.3).

As in the EU and the other WBT economies, SMEs dominate Albania's economy. In 2016, there were 44 325 SMEs, an increase of 31.5% from the total of 33 686 in 2013, and these SMEs account for 99.7% of all enterprises in Albania (Figure 13.2). They contribute more to employment in the business sector than on average in the EU – 77.5% compared to 66.6% – and create two-thirds of value added in the non-agricultural private sector (56.7% in the EU). Micro enterprises generated the most employment in 2016, although their share of both employment and value added has fallen by 2.2% since the previous assessment. On average, each SME in Albania employs 8.9 people.

Since the last assessment, SMEs' contribution to Albania's total exports has increased significantly, from 41% to 57%. However, more SMEs are involved in importing than in exports. In 2016, 7.4% of SMEs were importers, while only 2.4% were exporters (INSTAT, 2018[21]).

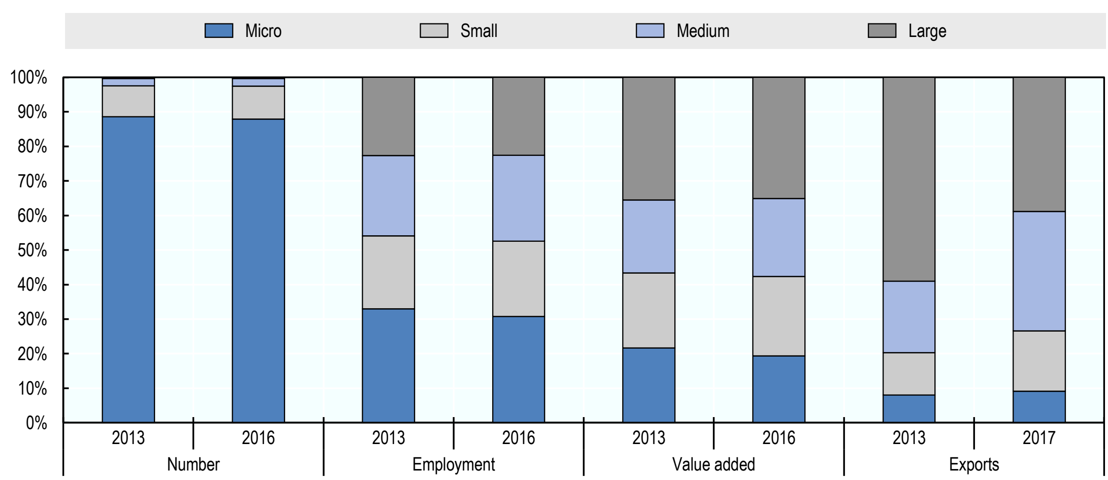
Table 13.3. Definition of micro, small and medium-sized enterprises in Albania

	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 78 000) turnover and/or balance sheet
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees = ALL 50 million (EUR 390 000) turnover and/or balance sheet
Medium-sized	250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees = ALL 250 million (EUR 1.9 million) turnover and/or balance sheet

Note: Albania's Institute of Statistics (INSTAT) in its reports defines company size based on the number of people employed, which is different from the number of employees. "Employed" means people who work at the enterprise regardless of whether they are paid or not. Thus, employed includes employees, owners and unpaid family members.
Source: Republic of Albania (2002[22]), *Law No.8957, on Small and Medium Enterprises*.

The share of businesses owned by women in Albania is not known, as the Statistical Agency of Albania does not collect data on this indicator as part of its structural business statistics.

Figure 13.2. Business demography indicators in Albania (2013 and 2016)



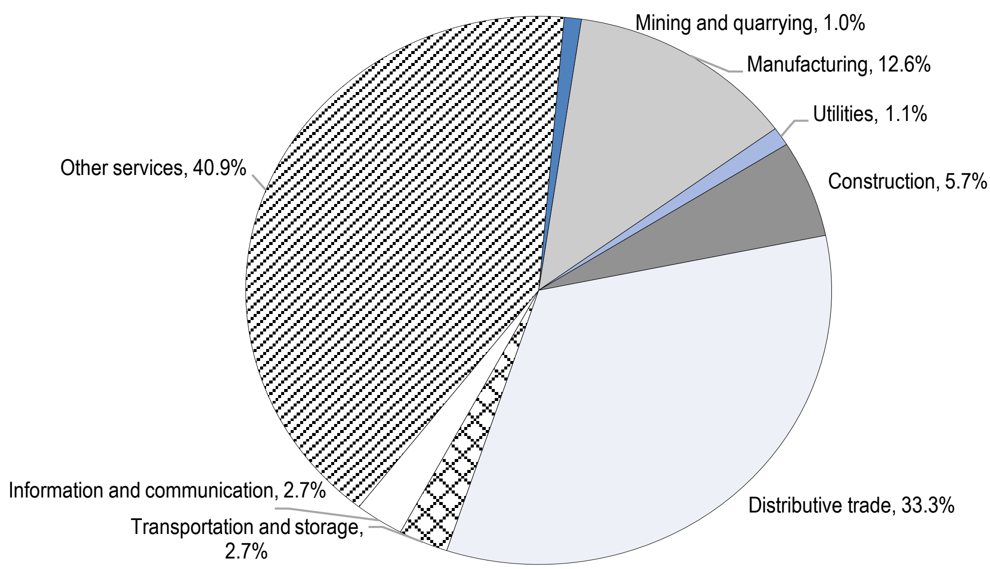
Note: These are estimates for 2016 produced by Albania's Institute of Statistics using the EU definition of SMEs (Table 13.3). The data cover the non-financial business economy, which includes the Statistical Classification of Economic Activities in the European Community (NACE) sectors of industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries.
Source: Albania's Institute of Statistics (INSTAT).

StatLink http://dx.doi.org/10.1787/888933937831

According to INSTAT's Structural Survey of Enterprises, investments by SMEs have grown by 86% since 2013 and accounted for 74.9% of total investments in Albania in 2016 (INSTAT, 2018[21]).[4] The same survey found SMEs in the mining and quarrying sector achieved the highest apparent productivity per employed person, measured as a ratio of value added to employment. Meanwhile, the lowest productivity was found among SMEs in the accommodation and food services sector.

The largest share of Albanian SMEs (33.3%) is engaged in the distributive trade sector, followed by manufacturing at 12.6% and construction at 5.7%. The sectoral distribution of SMEs has not changed significantly since 2013. The most notable changes are the 3.3 percentage point increase in the share of SMEs operating in distributive trade, and the 2.4 percentage point decrease in the construction sector.

Figure 13.3. Sectoral distribution of SMEs in Albania (2016)



Note: Agriculture excluded. The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Source: Albania's Institute of Statistics (INSTAT).

The largest share of Albanian enterprises are located in Tirana (33% in 2017; Table 13.4). However, this share has been falling since 2013 and the number of SMEs continues to grow in other economic hubs, including Berat, Elbasan, Fier, Korçë and Shkodër. According to INSTAT's Regional Structural Business Statistics, the district of Tirana also made the largest contribution to the growth rate of value added in 2016, increasing by 6.1 percentage points, followed by Durrës and Vlorë districts, with growth of 0.9 percentage points each (INSTAT, 2016[23]).[5]

Table 13.4. Number of registered companies in Albania by enterprise size and district (2013 - 2017)

District	Year	Enterprise size, by employment					Share of total number of enterprises
		0-9	10-49	50-249	250+	Total	
Berat	2013	4 366	151	27	13	4 557	4.10%
	2017	8 542	170	40	11	8 763	5.39%
Dibër	2013	1 897	145	30	5	2 077	1.87%
	2017	2 702	165	31	8	2 906	1.79%
Durrës	2013	9 989	461	129	22	10 601	9.54%
	2017	12 090	655	190	28	12 963	7.98%
Elbasan	2013	7 096	292	44	10	7 442	6.70%
	2017	12 792	336	58	15	13 201	8.13%
Fier	2013	9 441	308	67	14	9 830	8.84%
	2017	20 331	374	87	26	20 818	12.81%
Gjirokastër	2013	2 619	159	29	8	2 815	2.53%
	2017	4 634	167	37	9	4 847	2.98%
Korçë	2013	6 430	241	47	10	6 728	6.05%
	2017	13 435	313	50	16	13 814	8.50%
Kukës	2013	945	92	20	5	1 062	0.96%
	2017	1 829	93	18	6	1 946	1.20%
Lezhë	2013	3 011	138	32	8	3 189	2.87%
	2017	5 093	215	31	15	5 354	3.30%
Shkodër	2013	5 600	276	58	13	5 947	5.35%
	2017	11 157	361	68	17	11 603	7.14%
Tirana	2013	44 676	2 113	620	133	47 542	42.77%
	2017	50 254	3 055	809	173	54 291	33.42%
Vlorë	2013	9 008	293	56	7	9 364	8.42%
	2017	11 468	393	74	11	11 946	7.35%
Albania	2013	105 078	4 669	1 159	248	111 154	100,00%
	2017	154 327	6297	1 493	335	162 452	100.00%

Note: These are estimates for 2013 and 2017 produced by INSTAT using Albania's definition of SMEs (Table 13.3).
Source: Albania's Institute of Statistics (INSTAT).

Assessment and recommendations

Process

The Small Business Act (SBA) assessment cycle was launched in Albania with a kick-off meeting in Tirana on 17 October 2017. The meeting was organised in co-operation with the Ministry of Finance and Economy, nominated by the European Commission as the SBA Co-ordinator, responsible for implementing the SBA principles.[6]

During the meeting, the new assessment framework (see the Policy Framework and Assessment Process chapter for details) was presented to line ministries and public institutions so they could contribute to the information collection process. The two documents making up the assessment framework – the questionnaire and statistical data sheet – were explained in depth to the participants, directing particular attention to the newly added questions and indicators.

Following the launch event, the Directorate of Economic Development Policies under the Ministry of Finance and Economy distributed the questionnaire to the appropriate counterparts in the ministries and government agencies, and sent the statistical sheet to the National Statistical Office of Albania. From October 2017 to January 2018, the necessary data and documentation were compiled, subsequent to which the questionnaire was completed. In so doing, a score for each policy dimension was assigned, accompanied by a justification. The completed questionnaires and statistical data sheet were sent to the OECD team on 19 January 2018 for review.

The review of the inputs by the OECD and the partner institutions revealed the need for additional information on certain elements. This was requested from the Directorate of Economic Development Policies (Ministry of Finance and Economy). The updated questionnaire was then revised, and sent back on 28 March 2018.

Meanwhile, an independent assessment was also conducted by the OECD and its partner organisations. This was based on inputs from a team of local experts in Albania who collected data and information, and conducted interviews with key public and civil society stakeholders, as well as with SME representatives.

Following the completion of the government self-assessment and independent assessment, a reconciliation meeting was organised by the OECD and the European Bank for Reconstruction and Development (EBRD) in Tirana on 3 May 2018. The meeting aimed to fill any remaining information gaps in the questionnaire. It was also an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies, and what else can be done across different policy areas to improve SMEs' performance and competitiveness in Albania. For the two policy dimensions whose assessment was led by the ETF (entrepreneurial learning and women's entrepreneurship, and enterprise skills), similar meetings took place in Tirana on 20-22 February 2018.

The reconciliation meeting allowed the assessment findings to be consolidated. The OECD and its partner organisations decided on the final scores under each policy dimension presented in this report. The preliminary findings and scores were subsequently presented to SBA Co-ordinators at a meeting in Paris on 14 July 2018. The draft SME Policy Index publications and the SBA Assessment profile of Albania were made available to the Albanian Government for their review and feedback during August-October 2018.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 13.5).

For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

Table 13.5. Description of score levels

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

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

With a score of 2.94 for entrepreneurial learning and 2.62 for women's entrepreneurship, Albania performs below the regional average in this policy dimension (Table 13.6). Its performance is hampered by poor co-ordination of its monitoring and evaluation framework.

Table 13.6. Scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	3.33	3.73
		Implementation	3.47	3.61
		Monitoring and evaluation	1.00	2.57
		Weighted average	**2.94**	**3.43**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	3.00	3.57
		Implementation	2.71	3.16
		Monitoring and evaluation	1.80	2.37
		Weighted average	**2.62**	**3.12**
Albania's overall score for Dimension 1			**2.81**	**3.31**

State of play and key developments

Entrepreneurial learning

In Albania, the cross-government National Strategy for Development and Integration (NDSI II) 2014-2020 and the Albania Economic Reform Programme (2018-2020) both express the need for an entrepreneurial culture and support for entrepreneurial learning. In addition, the National Employment and Skills Strategy (2014-2020) and Business Investment Development Strategy (2014-2020) both contain a strong commitment to entrepreneurial learning.

Albania has still not developed a joined-up approach involving ministries, agencies and implementing partners in driving lifelong entrepreneurial learning and system-wide change, despite the previous assessment finding that Albania had recognised such an approach was needed. This makes it difficult to implement a coherent, evidence-based approach to formulating entrepreneurial learning policies, comprehensive actions and monitoring.

However, Albania has made some progress in implementing lifelong entrepreneurial learning across all levels, even if it is not yet system wide. These include practical entrepreneurial experiences such as student companies and entrepreneur clubs. In higher education, entrepreneurial learning is implemented through project-based activities that are part of the learning and assessment process. Islands of excellence can be found, primarily in donor-supported institutions and programmes.

Albania's progress in developing entrepreneurship as a key competence is focused on policy development and competence-based curricula; it has made little progress in implementing concrete changes in its education and training provision. The National Pre-

University Curricula Framework is the primary reference and incorporates entrepreneurship education as one of the key competences in all pre-university programmes. This is detailed in the sub-competences, expressed through learning outcomes. Entrepreneurship key competences fall under competences for life, entrepreneurship and the environment, as well as "basics of entrepreneurship". In vocational schools, key competences are part of the vocational education and training (VET) curricula in the 12th and 13th grades. In practice, however, these policy developments have not yet translated into concrete changes and teaching practices across all education and training provision.

The General Professional Standards for Teachers, a document produced by the Institute for Educational Development, includes entrepreneurship as a key competence. Even so, entrepreneurship key competences are not a priority for the government, and other actors (such as Kulturkontakt Austria and Junior Achievement) have been supporting the development of teaching and learning materials as well as teacher training (in some VET schools).

The challenge for Albania is to move from developing policies and tools, and piloting their application, to full implementation of the entrepreneurship key competences across the education system, in all classrooms. The economy's ongoing long-term educational system reform, begun in 2015, continues to offer opportunities to integrate entrepreneurial learning and entrepreneurship key competences into the education system in a more systematic way so that the changes needed in educational content and outcomes can reach every student.

Women's entrepreneurship

An advisory group for co-ordinating and monitoring the implementation of the Action Plan for Women Entrepreneurs (2014-2020) was mandated to bring together and co-ordinate women's entrepreneurship actions among public, private and non-government institutions. In practice, however, the advisory group – which consisted of seven ministries, the Institute of Statistics and the Bank of Albania – has convened only four times and has not met since the lead ministry, the Ministry of Economic Development, Tourism, Trade and Entrepreneurship (Order No. 340, dated 19. 6.2014), was dissolved in September 2017. Therefore, although the action plan included a framework for monitoring women's entrepreneurship support policies, without an institutional co-ordination mechanism, no monitoring took place. The new Ministry of Finance and Economy has now proposed restarting the co-ordination mechanism and reviewing the action plan.

Actions to support women's entrepreneurship and to exchange knowledge have continued even in the absence of a formal support mechanism. Four government funds managed by AIDA over the period 2014-17 have benefitted 77 women entrepreneurs through dedicated finance for the creative economy, competitiveness, innovation and start-ups. The Municipality of Tirana has run a dedicated fund to support aspiring women entrepreneurs to prepare business plans, funding 22 women through grants. Its annual events, such as "Women of the Year" and "The Golden Bee", have been effective at raising the visibility of women entrepreneurs, sharing practical experiences and offering role models. Other provinces and municipalities are less active, however.

The way forward for Dimension 1

- **Establish a joined-up approach to lifelong entrepreneurial learning.** As the previous assessment recognised, Albania has not made a deep commitment to prioritise implementing entrepreneurial learning across all the relevant ministries. A co-ordinating body, under the leadership of the Ministry of Education, Sports and Youth, would help to solidify commitment across ministries. It would also help pull together data for decision making and monitoring purposes as entrepreneurial learning is integrated into various national sector strategies, such as the Strategy for Pre-University Education, the National Strategy for Employment and Skills, and the Business Investment Development Strategy 2014-2020.
- **Undertake further professional development of teachers to implement an entrepreneurship key competence approach.** More work is required to broaden the entrepreneurship key competence approach to include more schools, training centres and university faculties and to make entrepreneurial learning, in addition to broader practical work experience, a priority in education and training provision. To strengthen implementation of this approach, teachers need to be able to develop their students' entrepreneurial learning key competences. Adequate teacher training by institutions such as the Institute for Educational Development will be needed to facilitate this shift in pedagogy and approach to learning. A new competence-based assessment model needs to be adopted as an integral part of both pre- and in-service teacher training at all levels.
- **Restart the Advisory Group on Women Entrepreneurs to increase women's participation in the labour market and reduce the gender gap.** Activate the proposal by the new Ministry of Finance and Economy to bring together seven ministries, as well as the Institute of Statistics and the Bank of Albania, to steer collaboration among stakeholders in supporting the implementation of the Action Plan for Women Entrepreneurs. Monitoring of economic opportunities and actions on women's entrepreneurship should inform the National Economic Council, the Council of Ministers, relevant ministries and implementing partners.
- **Strengthen dialogue with non-government organisations (NGOs) for women's entrepreneurship.** Dialogue and networking among NGOs working on women's entrepreneurship at the grassroots level need to be revitalised. Although good examples of women entrepreneurs are currently being used to motivate others, lessons from their experiences could be unpacked into good practices. These examples could also be used to understand how women's enterprises survive and grow – intelligence that could be disseminated more broadly to identify the obstacles and policy bottlenecks preventing women's broader participation in entrepreneurship.

Bankruptcy and second chance for SMEs (Dimension 2)

Albania is one of two economies in the WBT (alongside the Republic of North Macedonia) that has regressed on this dimension during the assessment period. Its score has fallen from 3.23 to 2.83 (Figure 13.1) slightly below the regional average of 2.87 (Table 13.7). However, it should be emphasised that a new bankruptcy law entered into force in May 2017 and its implementation is not yet completed, so it will be a number of years before the real impact can be fully assessed.

Table 13.7. Scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**2.29**	**2.39**
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.67	3.71
		Performance, monitoring and evaluation	2.44	2.46
		Weighted average	**3.18**	**3.21**
	Sub-dimension 2.3: Promoting second chance		**1.90**	**1.93**
Albania's overall score for Dimension 2			**2.83**	**2.87**

State of play and key developments

Preventive measures and bankruptcy procedures

In October 2016 parliament approved the Law on Bankruptcy which entered into force in May 2017. The rationale behind establishing an entirely new law was to overcome the gaps in the old framework, which was based on German law. The old legal framework was mainly focused on liquidation procedures without extending the law to the other parties involved or offering alternatives such as business reorganisations or debt restructuring.

The new law on bankruptcy largely conforms with international standards. The law specifies that an insolvency proceeding can be initiated for corporations in financial difficulties, with the exception of "public entities subject to administrative law". The debtor or the creditors can initiate bankruptcy proceedings in writing and in accordance with the requirements set by this law. Contrary to the previous law, the tax authorities no longer have any specific rights to open a case, but are subject to the same rules as other creditors. However, tax claims for one year prior to a filing for bankruptcy are treated as preferential claims.

The Law on Bankruptcy provides two options: 1) adopting a reorganisation plan for the survival of the debtor; and 2) liquidating the debtor or selling the company.

The new regulation offers SMEs the possibility of a reorganisation plan, which needs to be reviewed and voted on by creditors. If such a plan is prepared and submitted to the court, out-of-court procedures can start once they have been approved. If an SME's reorganisation proposal is rejected by the court, then it will be liquidated. However, the law is contradictory when it comes to the protection of creditors. It allows reorganisation plans to be approved by the court even if creditors vote against them. The law sets out the order in which the court considers the plans: first the debtor's plan, then the administrator's plan and finally the plans submitted by creditors. Consequently, creditors' opinions have only a minor influence in this process because they can be outvoted.

There is also another reorganisation process, called accelerated reorganisation: the legal framework allows enterprises the possibility of overcoming a situation of imminent insolvency if an agreement can be reached between the debtor and its creditors. An enterprise is considered to be in a situation of imminent insolvency when it is foreseeable that it will not be capable of paying its debts within six months or less. However, both procedures have to be validated in court, so they cannot be considered a pre-bankruptcy out-of-court settlement or a fast-track procedure. In order to fill this gap the legislature has prepared a draft by-law "On out-of-court restructuring agreements for financially distressed debtors", which is expected to be adopted in 2019. It is a voluntary procedure, providing a contractual stay on enforcements for 90 days and only binding on the parties that have agreed to it. Further, those creditors that do not agree with the proposed restructuring plan can be overruled by creditors holding 60% of the total debt. Thus, the rights of SMEs, who usually hold the minority debt, are not properly protected. However, the draft regulation is still in development, and this analysis should not be considered conclusive.

In addition, the overall legal framework offers the possibility of mediation, though this remains largely a civil procedure and cannot be directly linked with the reorganisation process. Information from private sector interviews shows that this process is rarely used among entrepreneurs.

Unless a reorganisation plan is submitted within the time frame provided by the law, the court opens liquidation proceedings. Debtors also have the obligation to file for liquidation if they realise that they cannot comply with the reorganisation plan. The first step of liquidation proceedings is to remove the debtor from managing the company. The administrator takes over the assets of the bankrupt estate that should be sold.[7] The bankruptcy court requests the administrator to prepare a plan for the liquidation in accordance with the law. Following the liquidation, the new law classifies the order in which creditors will be paid: 1) claims of preferential creditors; 2) claims of unsecured creditors; 3) claims of subordinated creditors; and 4) claims of the partners for partnerships and the shareholders of commercial companies.

The legal framework also regulates the procedures of restrictions such as creditors' consent when a borrower files for bankruptcy or the fact that secured creditors are to be paid first in case of liquidation. However, the regulations do not cover areas such as the seizure of collateral by secured creditors after reorganisation (see also Section Operational environment for SMEs (Dimension 4)).

Following liquidation, the law does not provide any formal discharge for companies; the legal framework does allow a discharge for natural persons and the process is not automatic. The evidence shows that the discharge process is relatively demanding for debtors. According to Articles 156, 157 and 158, the law provides for a five-year discharge period. Once completed, if discharge is not revoked the bankruptcy is closed. Debtors, however, shall be discharged with respect to any creditors, co-debtors, guarantors or any other persons having claims against them. The discharge of residual obligations (remaining payments) is initiated at the written request of the debtor. Before discharge can be validated, creditors have 20 days to submit any allegations or opposition. If there is no ground for refusal, the bankruptcy court approves the discharge and it is publicly announced in the National Business Centre[8] and the National Bankruptcy Agency. In the case of a refusal, it will be assumed that the debtor gave a false or incomplete financial statement and will be convicted accordingly of a criminal offence under the criminal code.

The Law on Bankruptcy defines the National Bankruptcy Agency as the competent state authority entrusted with the supervision, training and licensing of bankruptcy administrators (Articles 202-206). The agency monitors the administrators' implementation of the bankruptcy laws and procedures but the information collected is not publicly available and there is no information about the process and outcomes.

Albania has seen the third slowest increase in recovery rates since 2008 in the WBT region, after Turkey and Bosnia and Herzegovina. In 2018 the average recovery rate was 44 cents in the dollar, much less than the OECD average of 68.8 cents. It takes approximately 2 years to complete liquidation proceedings in Albania, compared with the OECD average of 1.8 years. The average cost is 10% of the estate, which is 0.5% more than the OECD average.

When it comes to **preventive measures**, Albania has made no major progress since the last assessment. The economy's early warning infrastructure remains undeveloped. The central bank publishes data from different banks on blocked accounts of entrepreneurs on its website, allowing financially distressed companies to be identified before they file for bankruptcy. However, the system does not currently allow enough time or information for a customised reorganisation. The regulations oblige the central bank to publish data on instances of forced collection procedures, including the names of the legal entities/entrepreneurs, their registration numbers, the blocked accounts and the number of days of uninterrupted account blockage.

Albania's example demonstrates how banks can complement public institutions in assessing companies' financial situations. The system in place was created with the aim of avoiding non-performing loans, thus potentially preventing SMEs from filing for bankruptcy. In that respect, some banks and some private credit registries developed their own mechanisms to assess customers' credit performance, by drawing on information from multiple sources such as tax declaration, social security declaration, and balance sheets. These credit information sources could be co-ordinated under a potential "insolvency register", allowing the government to have an overview of credit performance.

Promoting second chance

Albania has no specific national strategy to promote second chances for entrepreneurs. Following the European Commission's recommendation (EC, 2016[24]), providing a second chance to entrepreneurs is one of the priorities of the Business and Investment Development Strategy 2014-2020 (BIDS), which aims to reduce unnecessary procedures. However, there is not yet apparent evidence of the implementation of these measures.

The way forward for Dimension 2

- **Develop a fully fledged early warning system**. SME owners tend to underestimate their financial difficulties and resist taking action to alleviate financial hardship. Therefore, Albania should consider introducing a system which would convince entrepreneurs to initiate recovery measures without delay. While this system might take different forms, the first step should be to devise special detection procedures that would screen SMEs and monitor them for early signs of financial difficulties. Second, these SMEs need to be approached and offered advice on objectively assessing their financial situation, and the various options available to them for recovery. Once they are better informed, SMEs will be able to take the required steps earlier, thus increasing their chance of survival. Early warning mechanisms established by EU Member States could offer a blueprint for Albania (Box 13.2).

- **Allow the automatic discharge of entrepreneurs after liquidation**. Clear rules on the automatic discharge of debt would allow bankrupt entrepreneurs to efficiently re-integrate as soon as the judicial decision is taken. This will lower the administrative burden on courts, and help to reduce the length and the cost of bankruptcy proceedings. Widening the discharge procedure by not limiting it to natural persons could be a good basis for further developing second chance policies.
- **Introduce short-cut bankruptcy proceedings for SMEs and entrepreneurs**. The Albanian authorities should strongly consider developing a bankruptcy procedure with fewer administrative and financial burdens for SMEs. The current law only provides creditors with votes in proportion to the amount of debt they hold. A secondary rule allowing for majority votes by creditors for smaller bankruptcies should be considered. Such a rule would cover the rights and opinions of the many SME creditors, who together may hold a minority debt, especially for votes on reorganisation plans. Small bankruptcies should not be governed by creditors' committees and their reorganisation plans should not have to meet the current complicated standards for more complex large bankruptcies.
- **Implement and enhance the by-law on out-of-court restructuring agreements for financially distressed debtors**. A pre-bankruptcy out-of-court settlement can accelerate the process of reorganisation by reducing the number of stages that the debtor goes through. The current draft provides a controvertible binding to ordinary bankruptcy proceedings and undermines creditors' rights of proper settlement.
- **Improve and further develop the articles regulating the activities of the Bankruptcy Estate Agency.** The Albanian authorities should consider clarifying the functions of the Independent Regulatory Body under the agency. Thus, it should develop and introduce the National Standards for Management of the Bankruptcy Estate.[9]

Box 13.2. Early Warning Europe

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

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

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

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

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

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

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

Source: Early Warning Europe (2018[25]), Early Warning Europe website, www.earlywarningeurope.eu/.

Institutional and regulatory framework for SME policy making (Dimension 3)

With a score of 3.55, Albania's performance in this dimension is weaker than in 2016 (Figure 13.1). This is mainly due to slow progress in implementing and particularly monitoring policy actions in the legislative simplification and public-private consultation sub-dimensions (Table 13.8).

Table 13.8. Scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.17	4.06
		Implementation	4.13	4.06
		Monitoring and evaluation	4.14	3.92
		Weighted average	**4.15**	**4.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	3.24	4.00
		Implementation	2.76	3.25
		Monitoring and evaluation	1.51	3.23
		Weighted average	**2.65**	**3.47**
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	3.44	3.86
		Private sector involvement in PPCs	4.50	4.26
		Monitoring and evaluation	2.33	2.73
		Weighted average	**3.64**	**3.79**
Albania's overall score for Dimension 3			**3.55**	**3.79**

State of play and key developments

Institutional framework

As in the previous assessment, the Business Investment Development Strategy 2014-2020 (BIDS) remains the key strategic document in the SME policy area. When the BIDS was adopted, the Ministry of Economic Development, Tourism, Trade and Entrepreneurship was responsible for SME policy design and co-ordination, but since the government restructuring in September 2017, this role has been carried out by the newly established Ministry of Finance and Economy.

The BIDS is complemented by an action plan which clearly outlines measures and allocates a budget to them. It also includes monitoring mechanisms. The implementation of the planned activities was regularly tracked until the government restructuring in September 2017. The last available annual review was published at the end of 2016, covering the period 2014-16. It stated that 72.6% of the planned short-term activities had been carried out (61 out of 84).

AIDA is the main institution in charge of implementing the strategy. It is managed by a board of directors which has both public and private sector members and is chaired by the Prime Minister of Albania.

The informal economy has been recognised as one of the key impediments to doing business in Albania and the government therefore initiated the Fight Against the Grey Economy campaign in September 2015. This campaign gained major institutional support, with the Ministry of Finance, the Ministry of Internal Affairs and the General Prosecutor's Office signing a memorandum of co-operation on the Fight against Evasion and Informality. This inter-institutional approach has been reconfirmed by a series of co-operation agreements signed for this purpose by other relevant ministries.

As part of this campaign, an action plan was adopted in December 2016 aimed at imposing stricter measures against: 1) unregistered businesses; 2) businesses that do not introduce fiscal devices as stipulated by law; and 3) businesses that do not declare their employees and income. Following the adoption of the action plan in January 2017 the General Taxation Directorate established a working group to track its implementation. By also monitoring the number of newly registered businesses, the directorate aims to have a better understanding of to what extent these activities are increasing formality among enterprises. The monitoring report was being prepared at the time of writing.

Legislative simplification and regulatory impact analysis

Legislative simplification is embedded in the BIDS 2014-20 strategy, whose major objectives include improving the business climate, mainly through simplifying business-related legislation. The main measures focus on improving the World Bank *Doing Business* indicators, particularly in areas concerning construction permits, business registration and access to electricity.

A legislative review process has been going on during the assessment period, leading to the elimination of redundant legislation. However, no data could be obtained on how much legislation had been reviewed, simplified or eliminated. The government has made some significant efforts to simplify registration and licencing procedures. It has eliminated fees for all the procedures carried out through the electronic service window of the National Business Centre, which serves as the Albanian one-stop shop (for more information see Section on Operational environment for SMEs (Dimension 4)).

Following unsuccessful attempts during 2009-14, Albania introduced a requirement to conduct regulatory impact analyses (RIAs) for major regulations in 2018. Initially, the government carried out two pilot RIA studies to test the methodology. Based on these pilots, the Council of Ministers formally introduced RIA for the most important legislation through amendments to the Rules of Procedures of Government. Implementation has started and its scope will gradually increase. By the end of 2018, the government conducted 13 RIAs.

Public-private consultations

There is a formal requirement to conduct public-private consultations (PPCs) for all business-related regulations. The ongoing consultations are listed in a single government website, which was launched in December 2016 and is managed by the National Agency for Information Society (NAIS). However, the portal has not been regularly updated and it is left up to each line ministry whether to publish the information on their PPC processes. There are also other portals that publish information on ongoing consultations, such as the National Economic Council's website and the Office of the Prime Minister's website.

PPCs take place regularly, in line with the regulation requirements. Of all the WBT economies, Albania has adopted the fewest laws through an urgent procedure, i.e. without conducting any consultations. In 2016, only 5% of all laws were adopted circumventing PPCs (OECD, 2017[26]).

The National Economic Council was created in 2014 as a platform for dialogue between the government and business representatives to discuss legislation and policies relevant to enterprises. Since the last assessment, it has not lived up to expectations. There are no formal records on its activities, such as the number of consultations held or the level of private sector participation. Private sector interviews indicated that its meetings are rather sporadic, and it fails to exert any influence on the SME policy agenda.

A second consultative body – the Investment Council (IC) – was set up as a platform in 2015 by the Council of Ministers with the support of the EBRD. Its main purpose is to intensify the dialogue between the government and the private sector, improve the business climate, and promote good governance through a broad consultation process. The IC is chaired by the Minister of Economy and Finance, and has 15 members (high-level government officials, and representatives from business associations, the private sector and international partners). Between 2015 and 2017, the IC held 12 meetings, discussing deregulation reform, the informal economy, dispute resolution, investment incentives, enforcement of contracts, and tax and customs procedures.

Monitoring and evaluation of PPCs are non-existent in Albania, and statistical data on PPCs are also unavailable.

The way forward for Dimension 3

Overall, Albania has seen a slight deterioration in this policy area – a result of its slow progress in implementing and monitoring its SME policy measures. Moving on, it should address the following points:

- **Enhance the institutional capacity of institutions responsible for SME policies.** Following the government restructuring in 2017, staff should be continuously trained with a view to increasing their competence in understanding enterprises' needs and developing the necessary measures. By making the best use of accumulated institutional memory, the implementation of the BIDS, as well as its monitoring, should continue to advance.
- **Systematically conduct regulatory review and simplification processes in co-operation with businesses.** Business regulation needs to be renewed in close dialogue with the business community to identify the most burdensome areas, and propose simplification measures. Platforms such as the National Economic Council and the IC are currently excluded from these processes, and there is no evidence that private sector views, in particular those of SMEs, are taken into consideration. Denmark could serve as a blueprint for making businesses an integral part of the process (Box 13.3).
- **Ensure regular monitoring of SME policy measures.** Albania should improve its monitoring efforts of SME policy measures in order to ensure their effective implementation and introduce corrective actions if needed. This particularly applies to legislative simplification and public-private consultations. The government needs to make sure that the process of legislative simplification is continuous and systematic, following the annual plan and programme. Data on the proportion of business-related legislation that has been reviewed need to be

collected in a systematic manner. The government also needs to regularly track the outcomes of PPCs in order to check the effectiveness of government actions on building an open government.

Box 13.3 Denmark's Business Forum for Better Regulation

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

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

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

Sources: OECD (2017[27]), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy*; Business Forum for Better Regulation (2018[28]), Business Forum for Better Regulation website, www.enklereregler.dk.

- **Enhance the quality of the PPC process.** Currently, not every institution publishes reports on the e-portal on the PPCs it has conducted, or draft regulations that should be subject to consultation. The situation is aggravated further by the proliferation of other websites that also serve as portals but that only publish some ongoing PPCs. Overall, the absence of a central unit to check whether PPCs were conducted on time and whether SMEs' feedback and concerns were taken into consideration means there are no quality checks on the process. To overcome these issues and increase compliance with the PPC requirements, Albania should consider introducing a central co-ordination unit within the Ministry of Finance and Economy or the Office of the Prime Minister to supervise the use of the single government portal for consultations and act as a quality check and control mechanism for PPCs.

Operational environment for SMEs (Dimension 4)

Despite its score falling from 4.32 to 3.99 since the last assessment (Figure 13.1), Albania is still the regional leader for the operational environment of SMEs (Table 13.9). Thanks to the strides made in business registration and licensing, as well as delivery of public services, this policy dimension represents Albania's strongest performance in the whole assessment.

Table 13.9. Scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for enterprises	Planning and design	4.39	4.07
		Implementation	3.40	3.47
		Monitoring and evaluation	3.67	2.05
		Weighted average	**3.76**	**3.29**
	Sub-dimension 4.2: Company registration	Design and implementation	5.00	4.48
		Performance	3.93	3.72
		Monitoring and evaluation	4.31	3.59
		Weighted average	**4.51**	**3.97**
	Sub-dimension 4.3: Business licensing	Licence procedures	4.64	3.67
		Monitoring and streamlining of licence system	3.72	3.18
		Weighted average	**4.18**	**3.43**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Albania's overall score for Dimension 4			**3.99**	**3.45**

Note: A new sub-dimension 4.4 on tax compliance procedures for SMEs was added at the request of the assessed economies, to better reflect the complexity of the overall picture of the operational environment for SMEs, however, as it is a pilot analysis this sub-dimension has not been included in the scoring.

State of play and key developments

Digital government services for enterprises

In April 2015, The Council of Ministers adopted the cross-cutting strategy, the Digital Agenda of Albania 2015-2020. The strategy aims to develop Albania's information and communications technology (ICT) structure, increase Internet penetration and the number of online services, and provide public services through online contact points and one-stop shops. Since then, it has extended the range of services provided and adjusted its legal framework.

The e-Albania website (https://e-albania.al) was created in 2013 as a single multifunctional governmental portal for citizens and businesses. During the reference period for this assessment it has substantially enhanced its range of services. It is administered by the NAIS and serves as a one-stop single-entry point where users can access e-services provided by the public institutions.

Since the previous assessment, the government has enhanced the legal framework for electronic public services as part of the Digital Agenda. In October 2017, the Council of Ministers adopted Decision n°495 "On the adoption of rules to benefit from electronic public services" to give legal validity to the administrative documents generated through the e-Albania portal. As a result, all documents provided by the portal have an electronic seal with an authenticity guarantee. Businesses that need to deliver documents to private institutions can download them directly from the portal, and they come equipped with a digital seal and carry full legal value. In total, 450 000 e-sealed business-related documents have been downloaded within a year.

The e-portal is also connected to an interoperability platform called Government Gateway which links 48 electronic systems from different public institutions. The portal provides a total of 293 e-services to businesses, such as e-tax, e-permits, e-inspections, e-notary, e-cadastre and e-payment (Table 13.10). Around 60% of the application forms for e-services are pre-filled, thanks to the interoperability system, facilitating application processes.

Digital authentication is available for all existing services. Business can log in to e-Albania using their Unique Number of the Entity (NUIS) obtained during the company registration process. In addition, the use of electronic signatures is fully accepted by the administration.

Table 13.10. An overview of e-services in Albania

Main e-service type	Overview of related content
Building permits	Online application for building permits, detailed description of the steps of the procedure to be followed, the equipment with the necessary digital tools.
Cadastre	Application for registration, authentication documents, certificates, copies of maps.
Depositing annual balance sheets at the National Business Centre (NBC)	Online submission, information on the electronic balance settlement process.
Various certificates with legal validity	Proof of payment of contributions by the entity, proof of tax liability, Certificate of Investor Registration, proof of payment of obligations, status verification (active, passive including date), turnover certificate for the last 3 years, Registration Certificate, co-ordinated information on any real estate, official property Information for Individuals and Institutions, consultation of the Immovable Property Card, release copy of assets file, release copy of the cadastral map fragment, issuance of ownership attestation.
Licence applications	Over 100 e-services allow online application for a broad range of licenses to the NBC.
Online customs services	Listed services that enable the obtaining of authorisations for customs procedures, accompanied by a detailed procedure on the equipment with the necessary digital means.
Participation in fairs	Businesses can submit a request to the National Tourism Agency to participate in various activities at home or abroad.
Tax	Online filing and payment.

Albania became a member of the Open Government Partnership in 2011 and is finalising the commitments made under the third National Action Plan for Albania for the period 2016-18. The NAIS is currently working on the Open Data Portal project. This platform is intended to serve as an information resource for publishing open government data (OGD) to the public, including businesses, as well as a consultation place for citizens and decision-making institutions. The portal will be connected to the Governmental Interoperability Platform, automatically receiving data from connected institutions.

The NAIS is responsible for monitoring the use of digital services by SMEs. It collects feedback from SMEs and citizens who have benefitted from online government platforms. SMEs can file complaints and suggest changes to e-Albania. Over the years, the information collected on e-services has evolved so as to respond more closely to the needs and expectations of SMEs. However, apart from receiving this online feedback, there is no systematic evaluation of the services' quality or use by enterprises.

Business registration and licensing

Entrepreneurs in Albania are able to register their companies and apply for licences and permits at the National Business Centre (NBC), which became operational in April 2016. It operates as a one-stop shop in 33 municipalities and communes. The process works according to the "silence is consent" principle: if the relevant public body fails to answer a request within a prescribed timeframe as detailed in the relevant legislation, consent to the request is automatically conferred. The NBC operates under the newly established Ministry of Finance and Economy and is the result of a merger of the National Licensing Centre and the National Registration Centre.

The system in Albania has allowed full online company registration since 2016, and the NBC provides information on the relevant processes in both English and Albanian. Newly created entities are assigned an NUIS number which companies use in their interactions with the public administration and the private sector.

These administrative processes make Albania a leading example in the region of the co-ordination of the different services affecting SMEs' operational environment. It started simplifying registration procedures in 2009 with a reform to consolidate tax, health insurance, and labour registration into a single application. This has allowed Albania to remain the front runner in terms of the time needed to start a business in the WBT region. It takes just five days to register a business in Albania, due to electronic registration, and the elimination of minimum capital requirements and the need for notarised incorporation documents. The average number of procedures needed to register a company has been reduced from 8 in 2008 to 5 in 2018, equalling the OECD average. However, the cost of starting a business remains the second highest in the region after Bosnia and Herzegovina, at 11.3% of income per capita.

The NBC provides entrepreneurs with guidance material and information on the required fees and licensing criteria. There are three categories of licences for businesses (Table 13.11). All permit and licence requests can be submitted on line through the NBC, and once the request is registered, the electronic system checks the documents and digitally assigns an officer responsible for delivering the licence or permit.

Table 13.11. Categories of licences for businesses

Licence group	Process of fulfilment of criteria	Time limit for approval/rejection	Responsible authority
Group 1	Based exclusively on the self-declaration of the applicant.	Two working days from the date of submission of the application.	National Business Centre.
Group 2	Based exclusively on self-declarations and proof documents submitted by the applicant.	Four working days from the date of submission of the application.	National Business Centre.
Group 3	In addition to the requirements of the first and second category, the evaluation of fulfilment of criteria is based on a process of inspection, test, contest, interview, hearing or any other evaluation method.	Same time limit depending on the group for evaluations made by NBC; for the evaluation of other criteria the time limit is determined by the Council of Ministers.	National Business Centre for the criteria which fall under Groups 1 and 2. The responsible authority depending on the competences for the evaluation of other criteria.

Note: The time limit is administered under the "silence is consent" principle.
Source: Adapted from Law No. 10 081, Republic of Albania (2009[29]), *Law on Licences, Authorisations and Permits*, www.qkr.gov.al/media/1255/1-law-no-10-081-dated-2322009.pdf.

Tax compliance procedures for SMEs

The Ministry of Economy and Finance is in charge of fiscal policy. It conducts evaluations of the tax rates and incentives applied to businesses. These studies and evaluations are part of the fiscal package that accompanies the state budget every year. However, they focus mainly on the budget rather than on the effective tax burden imposed by the tax regime.

Albania does not offer a wide range of tax simplification measures to businesses. SMEs can benefit from only two simplification procedures, regardless of the sector.

For **income tax simplification**, both incorporated and unincorporated SMEs with an annual turnover of up to ALL 8 million (around EUR 60 000) are subject to a presumptive income tax scheme. Those with an annual turnover of ALL 5-8 million pay a 5% income tax rate instead of 15%, while if their annual turnover is below ALL 5 million (around EUR 40 000) they are exempt from paying income tax. Starting from January 2019, the ALL 8 million threshold will be increased to ALL 14 million (around EUR 110 000). The tax is payable on line. Agricultural businesses pay a fixed 5% rate of income tax, regardless of annual turnover.

For **value-added tax (VAT) simplification**, businesses with a turnover of up to ALL 5 million are not obliged to register for or pay VAT. In April 2018, the threshold was reduced to ALL 2 million (EUR 15 600). Business with an annual turnover of between ALL 2 million and ALL 5 million can submit their VAT declarations on a monthly basis. In 2017, to inject stimulus into the tourism sector, the government offered some additional fiscal incentives to enterprises operating in the hospitality sector. The VAT rate for these businesses was reduced from 20% to 6%, and the income tax rate was also lowered to 5%.

Albania has no simplified schemes for calculating VAT liability and businesses are not allowed to use cash accounting for VAT purposes. No simplified schemes for return filing and payment are foreseen in the near future.

The way forward for Dimension 4

- **Continue efforts to improve open government data.** Open government data can not only increase transparency and help reduce corruption, but also carve out new forms of citizen involvement. SMEs' use of OGD remains low, mostly due to the lack of sophisticated analytical tools needed to analyse large datasets. Spain's Aporta initiative offers an example of promoting the reuse of OGD by SMEs (Box 13.4).
- **Regularly monitor and evaluate tax simplification measures**. While tax simplification schemes should reduce tax and compliance burdens for small firms, they should not create tax-induced disincentives for firms to grow. In many countries, presumptive or simplified tax regimes create a lock-in effect in the sense that the change from the simplified to the regular regime results in an overly large increase in the tax burden.

In Albania as in the rest of the region, simplified tax schemes are not regularly evaluated for SMEs' compliance, economic impacts or tax revenue collection. Simplified tax schemes should be regularly monitored and evaluated to gauge whether they reach the targeted group of businesses and are effective in reducing income and VAT compliance costs while at the same time stimulating economic growth.

Box 13.4. Aporta: Adding value to open government data in Spain

In 2009, the Aporta Initiative was launched by the Spanish Ministry of Industry, Energy and Tourism together with the Ministry of Finance and Public Administration. The aim of the initiative was to create an ecosystem which stimulates the availability and use of OGD among private, academic and public entities, and encourages them to add further value. Aporta manages a portal, http://datos.gob.es, launched in 2011, and which allows users to freely access data on the state administration and other regional and local administrations in Spain.

As well as maintaining and updating the portal, Aporta focuses on promoting the use of OGD among private sector companies and citizens to create a positive economic and social impact. For instance, it provides training materials (guides and good practice examples) on open data and their potential reuse. Through organising competitions (the Aporta Challenge) and payments for private sector companies which suggest innovative ideas for the commercial use of OGD, Aporta creates incentives for them to integrate OGD into their businesses. It also organises countrywide meetings to promote the culture of reusing public information. These promotional activities seek to encourage the use of OGD. In parallel, Aporta helps public institutions to openly publish information according to existing EU directives (EC, 2018[17]). It also helps them to identify strategies and methods for integrating OGD into their operations. Aporta monitors and publishes use figures for the OGD portal, and has established a forum on its website which allows users to request data relevant for their own purposes. Through this interactive forum, Aporta seeks to create a demand-driven OGD environment in which the data provided are valuable in economic and social terms.

According to the OECD's *OURdata Index*, Spain ranked fourth for government support for data reuse in 2017 (OECD, 2017[30]). The most recent report by the Spanish Multisectorial Information Association recorded 636 companies operating in the Spanish infomediary sector in 2016, i.e. companies whose activity is based on the reuse of public and/or private data. They employ more than 19 000 employees and generate annual returns of over EUR 1.7 billion. The infomediary sector has been expanding since 2015 in both revenues and numbers of employees

Aporta's key success factor is its concentration on creating value that is relevant and valuable for its users. Throughout its activities, Aporta seeks to connect potential beneficiaries of OGD to enhance communication and ensure the provision of data.

Source: datos.gob.es (2018[31]), *Acerca de la iniciativea Aporta [About the Aporta Initiative],* http://datos.gob.es/es/acerca-de-la-iniciativa-aporta.

Support services for SMEs (Dimension 5a)

Albania has improved its performance in this dimension since the last assessment, increasing its overall score from 2.65 to 3.61(Figure 13.1). Its higher overall score reflects improvements made in both sub-dimensions. Despite this progress, Albania still scores slightly below the WBT average of 3.89 (Table 13.12).

Table 13.12. Scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: Business support services provided by the government	Planning and design	3.67	3.84
		Implementation	2.79	3.68
		Monitoring and evaluation	2.60	3.19
		Weighted average	**3.01**	**3.63**
	Sub-dimension 5a.2: Government initiatives to stimulate private business support services	Planning and design	5.00	4.67
		Implementation	3.43	3.85
		Monitoring and evaluation	5.00	4.07
		Weighted average	**4.21**	**4.14**
Albania's overall score for Dimension 5a			**3.61**	**3.89**

State of play and key developments

The Business Investment Development Strategy 2014-2020 (BIDS) is Albania's main strategy document for the provision of business support services (BSSs). It was based on an assessment of the existing situation including the main challenges faced by potential entrepreneurs starting a business. The strategy is accompanied by an action plan with an implementation timeline and measurable targets, for example, training about 2 000 young potential entrepreneurs in how to start a business by the end of the implementation period (2020).

As in the other WBT economies, several public institutions provide financial and non-financial support to SMEs, such as the Regional Economic Development Agency, the Ministry of Finance and Economy, and the National Employment Service. However, AIDA has been the dedicated public institution providing BSSs to SMEs since its establishment in 2010. In 2018, AIDA's overall budget was approximately EUR 2.3 million. While AIDA does provide BSSs to SMEs in the form of general information (e.g. on relevant legislation for starting a business, how to develop a business plan, and what financial and non-financial BSSs are available), it does not deliver training or mentoring services to SMEs directly. On its website, AIDA provides a link to the Bpifrance university e-learning portal and provides co-financing schemes (called "funds") with specific objectives and target groups.

In 2018, AIDA offered four funds: 1) the Competitiveness Fund; 2) the Fund for Supporting Start-up Enterprises; 3) the Creative Economy Fund; and 4) the Innovation Fund. Each fund has clearly defined eligibility criteria, a co-financing mechanism and payment methods. For example, an SME accepted by the Fund for Supporting Start-up Enterprises, which had a budget of ALL 10 million (around EUR 78 000) at its disposal in 2018, can be co-financed for up to 70% of admissible costs up to ALL 500 000 (around

EUR 3 900). Admissible costs include: 1) investment in equipment and technology for the promotion of a product/service; 2) marketing of products and promotion; 3) qualifications and training to enhance entrepreneurship skills; 4) web page design and the publication of promotional material; and 5) attendance at trade fairs or exhibitions in Albania or abroad as a visitor or exhibitor. An SME accepted by the fund receives co-financing of 50% of the project costs when its project is approved and 50% upon completion of the project against invoices for expenses.

SMEs' uptake of AIDA's BSSs has been relatively low. In 2017, only 1.2% of all SMEs in Albania used a BSS provided by AIDA. In comparison, 18.6% of SMEs in Turkey used a publicly funded BSS in 2017, and 3.7% of SMEs did so in the other five Western Balkan economies on average. The Independent evaluation and private sector interviews revealed that SMEs perceive the application procedures for AIDA's funds to be cumbersome, and the low levels of financial support further deters them from making the effort to apply. SMEs that do apply for the funds are required to visit AIDA, which only has one office, located in Tirana (Memi and Shkodrani, 2017[32]). This can be an obstacle for SMEs in other regions and explain their reluctance to apply for AIDA's BSS.

AIDA monitors the implementation of its co-financing schemes and reports to the Ministry of Finance and Economy. In contrast to the last SBA assessment in 2016, AIDA has also started requesting feedback on its schemes from beneficiaries. However, unlike the other leading BSS-providing institutions in the WBT economies, AIDA's monitoring reports are not publicly available. In 2017, AIDA benefitted from an independent in-depth evaluation of its co-financing schemes (Box 13.5).

Box 13.5. The independent evaluation of AIDA's co-financing support funds

In 2017, independent experts conducted a technical evaluation of all co-financing support mechanisms for SMEs operated between 2013 and 2017. The report's development was supported by the German development agency *Gesellschaft für Internationale Zusammenarbeit* (GIZ).

The 70-page document includes quantitative data on the uptake of each funding scheme (number of applicants and number of beneficiaries) and evaluates the funds' administration based on two sources of qualitative information – interviews with staff from AIDA and the Ministry of Finance and Economy who had been involved in the funds' management, and interviews with applicants and beneficiaries of the funds – as well as a questionnaire distributed to 50 SMEs.

Based on the findings and international good practice examples, the evaluation provides general recommendations for all funds offered by AIDA. It also describes the strengths and weaknesses of each fund, and makes recommendations to address them.

Overall, the report argues for stronger co-ordination and consolidation of the BSSs offered by the various institutions, such as AIDA, the Regional Economic Development Agency, the Ministry of Finance and Economy, and the National Employment Service. In order to avoid overlapping services and to use scarce resources more effectively, it proposes co-ordination of BSSs by these public institutions as the main way forward.

Source: Memi and Shkodrani (2017[32]), *Evaluation and Analysis of Government Support Funds for MSME Operated by AIDA*.

The way forward for Dimension 5a

Despite Albania's improvement in the provision of BSSs, challenges remain. These could be resolved through the following steps:

- **Simplify the procedures for applying for BSSs and increase their attractiveness.** Given that two-thirds of Albanian SMEs were not located in Tirana in 2017, AIDA might consider, first, fully digitalising its application process, and, second, collaborating with local institutions, such as municipalities or chambers of commerce. Such collaboration could also be used to promote AIDA's funds, which might also improve uptake. Establishing an electronic information exchange system between AIDA and other relevant state bodies, such as the NBC and the Tax Office, would free SMEs from spending their limited resources on acquiring the application documents they need individually. The budget and support limit per beneficiary should be also increased to attract greater interest by SMEs. The upper support limit under the Start-up Fund was increased from ALL 300 000 (approximately EUR 2 200) to ALL 500 000 (approximately EUR 3 900) between 2017 and 2018. However, the upper support limits for the Innovation Fund and the Creative Economy Fund remained unchanged, at ALL 400 000 (approximately EUR 3 100) and ALL 500 000 respectively.

- **Complement co-financing schemes with free BSSs.** While AIDA offers co-financing schemes to SMEs, it does not provide training or mentorships directly. BSSs provided by public institutions are an important instrument for ensuring SMEs have access to crucial information, advice, training and mentoring. Although offering co-financed BSSs helps to stimulate BSS provision through the private sector, relying exclusively on them risks moving services out of reach of micro and small enterprises, which are generally unable to afford private consultancy fees, even if co-financed. In order to address the low uptake of its services, AIDA should complement its co-financing schemes with free training and advisory services directly provided by its staff.

- **Conduct regular training needs analyses (TNAs)** to better develop and adapt BSSs to SMEs' actual skills needs. While Albania's National Employment Service conducted a wider employers' survey in 2017, no comprehensive TNA was carried out among SMEs during the current assessment period. Regular TNAs would help to fill the gaps in BSS provision, better target the support provided and create more effective services. In particular, it would help to tailor the BSSs on offer to the needs of micro and SMEs, their sector, their stage of development, and their actual experience in the market.

- **Introduce a quality assurance mechanism, such as an accreditation system, for private sector consultants and trainers delivering co-financed support.** SMEs in Albania can currently freely choose the private sector consultants or trainers they use under a co-financed programme. AIDA should consider introducing an accreditation system to make sure that private sector providers have a minimum level of experience and qualifications. It could then limit SME co-financing support to accredited private sector consultants and trainers. This would guarantee the quality of services delivered and encourage SMEs to seek the benefits from privately delivered BSSs more enthusiastically, while also having a positive impact on SMEs' growth.

Public procurement (Dimension 5b)

Albania received an overall score of 3.69 for this dimension (Table 13.13), the fourth best score in the region, but worse than in 2016 (Figure 13.1).

Table 13.13. Scores for Dimension 5b: Public procurement

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 5b: Public procurement	Sub-dimension 5b.1: Public procurement	Policy and regulatory framework	3.51	3.92
		Implementation	4.28	4.05
		Monitoring and evaluation	2.50	3.24
Albania's overall score for Dimension 5b			**3.69**	**3.84**

State of play and key developments

The basic act regulating public procurement in Albania is Law No. 9643/2006 on Public Procurement (PPL). The basic principles referred to by the PPL are non-discrimination and equal treatment of bidders, transparency of procurement procedures, and equal treatment in the requirements and obligations of bidders or candidates. The PPL was last amended in 2017, strengthening the independence and impartiality of institutions responsible for reviewing appeals submitted by economic operators. The amended law states that members of the independent review body – the Public Procurement Commission – are to be nominated by and accountable to parliament. Albania has yet to implement the provisions of the 2014 EU public procurement directives.

The main strategic document on public procurement is the Strategy of Management and Public Finance 2014-2020; however, it does not provide any specific actions for the participation of SMEs in public procurement.

Neither the PPL nor its implementing regulations provide for preferential (privileged) treatment of domestic economic operators over foreign companies. Access to public procurement is therefore open to foreign companies, regardless of where they are based, on equal terms to domestic companies. The public procurement provisions do contain the typical kinds of solutions which can be useful for SMEs. For instance, tenders or requests for participation in public procurement procedures may be submitted by groups of economic operators (consortia), not just by individual suppliers. However, in order to submit a tender or a request to participate, the contracting authorities require groups of economic operators to assume a specific legal form. A consortium must be officially established by means of a notarised declaration by the participating operators, stating the size and nature of each of their contributions.

The PPL states explicitly that the qualification requirements for procurement should be drawn up in a manner that encourages the participation of SMEs and in compliance with public procurement rules. The PPL also allows the contracting authorities to divide public procurement contracts into smaller parts (lots). The implementing regulations particularly encourage the use of lots in order to increase the participation of SMEs. Contracting authorities are not allowed to establish criteria, requirements or procedures for the qualification of economic operators that would discriminate against or among suppliers or contractors or against their categories. The requirements for bidders must be related and proportionate to the object and the value of procurement. Economic operators are in principle allowed to subcontract part of a contract they were awarded to other economic operators. According to the implementing regulations, contracting authorities should allow subcontracting particularly to promote the participation of SMEs. However, the procurement provisions require the subcontracted part of the contract to be proportionate to the value of the contract and not exceed 40% of the overall contract value – a limitation that does not comply with the EU *acquis*. The implementing regulations require all procurement procedures to be conducted electronically, except for negotiations without prior publication, contracts with a value lower than ALL 100 000 (approximately EUR 800), the second phase of design contests, consultancy procedures and the purchase of electrical power.

The PPL enables economic operators to challenge any contracting authorities' decisions that are contrary to the public procurement regulations. Any person having or having had an interest in a procurement procedure, and who has been or risks being harmed by a decision made by a contracting authority which infringes the PPL, may challenge such a decision. Appeals are submitted first to the relevant contracting authorities. The time limit for submitting an appeal is seven days, which is shorter than the time period required by the relevant EU rules.

The central administrative body for public procurement matters is the Public Procurement Agency (PPA). Its tasks include preparing draft implementing regulations related to public procurement, promoting and organising the training of public procurement officials, issuing the Public Notifications Bulletin containing public procurement notices, preparing standard tender documents to be used in awarding procedures, providing advice and technical assistance to contracting authorities as requested, and monitoring the application of public procurement provisions. Every year, the PPA prepares an annual report to the Council of Ministers on the overall functioning of the public procurement system in Albania.

The PPA portal is an important source of high-quality information for contracting authorities, economic operators and other stakeholders and includes legislative acts, standard tender documentation, manuals, training materials and annual reports. Although the PPA's annual reports provide statistical information on the functioning of the public procurement system, they do not contain information about the share of SMEs in awarded public procurement contracts. Apparently, the PPA does not collect and analyse information about the obstacles encountered by SMEs in access to public procurement contracts. The PPA does not offer economic operators training in public procurement.

The way forward for Dimension 5b

Albania has established a solid institutional and regulatory framework for public procurement. However, there is room for further improvement in the institutional support for SMEs and in monitoring the application of public procurement rules. Albania should consider placing more emphasis on the following points:

- **Further align national legislation with EU rules and international good practice**. In particular:
  - remove restrictions on subcontracting, such as the maximum share of a procurement contract which may be subcontracted
  - remove obstacles to joint bidding, such as requiring suppliers who want to submit a joint tender to adopt a specific legal form
  - adjust the time periods for appeals to meet the requirements of EU directives.

- **Improve the monitoring and evaluation of SMEs' participation** in public procurement by collecting and meaningfully analysing statistical information including the share of contracts awarded to SMEs, the percentage of procedures in which procurement was divided into lots, and the share of procurement procedures in which groups of economic operators were participating.
- **Constantly monitor and analyse the obstacles faced by SMEs in accessing public procurement markets**. The PPA should proactively approach SMEs, through questionnaires or targeted events, in order to better grasp the difficulties they face in applying the public procurement law. This would allow the PPA to identify any problematic provisions, and to develop the necessary measures to increase SME participation in public procurement tenders.

Access to finance for SMEs (Dimension 6)

The access to finance score for Albania has only marginally improved since the last assessment – from 3.26 to 3.32 (Table 13.14; see also Figure 13.1). This reflects the very few changes it has made to its policies to facilitate SMEs' access to finance. There have been some improvements in the legal and regulatory framework to support bank lending, but performance in other areas remains largely unchanged, and the high level of informality among micro and small businesses is still a key challenge in this area.

Table 13.14. Scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	4.44	4.20
		Registers	4.42	4.58
		Credit information bureaus	4.43	4.55
		Banking regulations	3.50	3.79
		Stock market	1.31	2.93
		Weighted average	**3.86**	**4.14**
	Sub-dimension 6.2: Bank financing	Banking lending practices and conditions	2.48	2.92
		Credit guarantee schemes	2.48	2.30
		Weighted average	**2.48**	**2.67**
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	4.83	3.57
		Leasing	2.46	2.84
		Factoring	2.63	2.45
		Weighted average	**3.31**	**2.95**
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	1.67	2.32
		Design and implementation of government activities	1.57	2.48
		Monitoring and evaluation	1.00	1.48
		Weighted average	**1.49**	**2.22**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	2.26	2.44
		Monitoring and evaluation	1.00	1.19
		Weighted average	**2.01**	**2.19**
Albania's overall score for Dimension 6			**3.32**	**3.53**

State of play and key developments

Legal and regulatory framework

The legal framework for secured transactions has been reformed to allow secured creditors to be paid first in insolvency proceedings. This strengthens secured creditor rights and may encourage banks to increase lending. Despite an adequate legal framework, enforcement remains difficult in practice. In June 2017, the banks ceased to work with bailiffs, claiming high charges and poor service. New regulation to resolve these issues is being drafted, but has not yet been passed.

Albania has a cadastre system in place which is accessible to the public. However, it is still not fully available on line, reducing its ease of use and reliability, which is a major concern for investors and financial institutions. The register is not unified, but organised by regions, with different offices applying different standards. The information may also not be up to date, not least due to illegal construction activities. This makes even the registration of immovable assets unreliable. Albania also now has a publicly accessible register for security rights over movable assets, which is a positive development since the last assessment. However, these records are not available on line and the system is heavily reliant on paper documents, which limits access and often results in movable assets not being accepted as collateral.

A public credit registry exists and coverage has increased substantially since the last assessment: more than half of the population is covered, compared to around 16% in 2015. This is mainly due to the Bank of Albania adding reporting by many non-bank financial institutions. However, given that public registries usually do not collect information beyond financial institutions, there is limited scope to increase coverage further by collecting information from other sources such as retailers or utilities, without the establishment of a private credit bureau. To allow for broader coverage and full credit scoring, the Albanian Association of Banks has initiated a project to set up such a credit bureau, though this is in its early stages.

The implementation of Basel III has not yet started. To protect unhedged borrowers, banks are required to disclose the risks of foreign exchange borrowing to their clients.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Lending to the private sector remains lower than in Albania's regional peers, with domestic credit to the private sector standing at about 35% of GDP. About 42% of lending went to SMEs, compared to an average of 48% in the region. A historically low central bank rate of 1% has pushed interest rates down. Even though it has the highest non-performing loan (NPL) ratio in the Western Balkans, Albania has made major progress with non-performing loans, which fell from over 20% of total loans in August 2016 to 13.7% in February 2018. This decline is largely attributed to mandatory write-offs and the Bank of Albania's proactive approach to resolving large borrowers' NPLs as part of an action plan for NPL resolution. On the other hand, NPL sales have been limited due to low expected recovery rates and tax impediments. Overall, this development is an important step towards a healthier lending environment. Nevertheless, the loan-to-deposit ratio remains very low compared to other Western Balkan economies. Given that many NPLs were caused by larger companies, there is some interest in lending to SMEs. However, a new provision which requires banks to base their loan appraisals on official tax records may make it more difficult for many small businesses to get adequate financing. High levels of informality in the economy already contribute to the inaccessibility of finance for many small businesses.

The Bank of Albania has stepped up efforts to promote local currency lending which has resulted in fewer loans being denominated in foreign currencies. In order to protect consumers, banks have to disclose foreign exchange risks and explain them with the help of illustrations and examples. Even so, just over half of new loans to private non-financial corporates in 2017 were denominated in a foreign currency.

There are support programmes to facilitate access to finance for SMEs, such as the EBRD's Albania Agribusiness Support Facility, funded by the Government of Albania; the Albanian-Italian Programme for the Development of Albanian SMEs; and the European Fund for Southeast Europe. However, their scope remains limited and take up has sometimes been low. In addition, as described in Section Operational environment for

SMEs (Dimension 4), the Ministry of Finance and Economy has four targeted funds implemented through AIDA which are effectively grant programmes.

Non-bank finance remains very limited. Microcredit, leasing and factoring are available and backed by well-developed legal frameworks, but penetration is low. Microcredit, including from 13 savings and loan associations, is by far the most common type of financing, accounting for two-thirds of all loans by non-bank financial institutions. Financial leasing institutions are next, accounting for less than 30%, while factoring contributes a marginal share. Although leasing and factoring volumes have increased in recent years, these instruments remain underused. Contributing factors appear to be a low level of awareness and understanding. Combined with the lack of any systematic approach to financial education (see Financial literacy, below), there is a clear lack information about the different financing options available to entrepreneurs.

Albania has no operational stock exchange. A new platform called ALSE has recently been created and will start by trading government debt, meaning that a move to trading other assets is still some time away.

Venture capital remains practically non-existent in Albania, explaining the very low score of 1.49 in this sub-dimension. Significant efforts are needed to establish a functioning ecosystem. The BIDS envisages the setting up of venture capital and business angel schemes, but no actions have been taken to date. Start-ups find it very difficult to obtain financing, although AIDA has a start-up fund which was increased to ALL 10 million (EUR 78 000) in 2018 (see Section 0). The eligibility criteria have been changed to grant access to this fund by firms that have been in existence for under a year.

Financial literacy

Low levels of financial literacy, particularly amongst SMEs, remain a major obstacle to accessing finance. Albania scores particularly poorly in the Standard & Poor's financial literacy survey.[10] Less than 14% of the adult population is deemed to be financially literate according to this survey, compared to an average of 27.5% in the region. As mentioned above, it is very difficult for small firms to obtain information about financing or training opportunities as no centralised platform exists.

The way forward for Dimension 6

Small businesses still struggle to access financing in a context of negative credit growth and a lack of knowledge about and availability of alternative instruments. High levels of informality exacerbate this problem. Despite some progress, further efforts are needed to facilitate SME financing:

- **Increase efforts to reduce informality among micro, small and medium-sized enterprises,** which is considered a key obstacle for SME access to finance. Measures could include reforming the tax regime and strengthening enforcement procedures, or introducing cash registries to automatically recognise trade activities. Other activities should include raising awareness about the importance of financial transparency and accounting amongst businesses, and improving the level of financial literacy among business owners and managers.
- **Increase awareness of alternative financial instruments to increase the uptake of non-bank financing.** This could be done through a central information platform (for example on line) that is easily accessible and has clear guidance on different aspects of access to finance. Such a platform could also be used as a first

point of call for financial education, guiding business owners and managers towards financing and training opportunities.

- **Improve the reliability and accessibility of registers for securities over immovable and movable assets.** Systems should be easily accessible to users and ensure records are up to date and reliable to encourage lending against such collateral.
- **Broaden the available credit information.** Including information from retailers and utility companies could help small businesses build a credit history to ease their access to finance. This could be done by encouraging the establishment of a private bureau.

Standards and technical regulations (Dimension 7)

Since the last assessment, Albania's overall score has increased from 3.35 to 3.64 for this dimension (Figure 13.1), the largest improvement of all the WBT economies. However, it still scores slightly below the regional average of 3.83 (Table 13.15). Although it has made significant improvements in accreditation and market surveillance, Albania is only moderately prepared in the area of the free movement of goods.

Table 13.15. Scores for Dimension 7: Standards and technical regulations

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures	-	2.75	3.12
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	3.53	3.87
		Standardisation	4.25	3.97
		Accreditation	4.15	4.53
		Conformity assessment	3.53	3.65
		Metrology	4.33	4.47
		Market surveillance	4.20	4.43
		Weighted average	**4.00**	**4.15**
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	4.25	4.24
		SMEs participation in developing standards	2.50	2.57
		Financial support to SMEs	1.80	2.39
		Weighted average	**2.85**	**3.07**
Albania's overall score for Dimension 7			**3.64**	**3.83**

State of play and key developments

Overall co-ordination and general measures

The Internal Market Division of the Ministry of Finance and Economy is in charge of the overall policy co-ordination for quality infrastructure. However, its co-ordinating role excludes market surveillance activities and the heavy industry sector, which prevents the holistic co-ordination of its "pillars". The National Plan for European Integration 2017-2020 is the overarching policy document for harmonisation with the EU *acquis* and, together with the 2020 Strategy on Consumer Protection and Market Surveillance, guides the process of transposing the *acquis* in the area of quality infrastructure.

Albania is yet to establish a single point of contact for exporters or introduce a designated portal to provide SMEs with the relevant information needed for exporting to the EU Single Market. As a consequence, SMEs currently have to gather the relevant information from various ministries and government agencies.

Harmonisation with the EU acquis

Albania has the horizontal legislation and the relevant administrative structures in place to cover technical regulations, standardisation, accreditation, conformity assessment, metrology and market surveillance.

The transposition of EU sectoral legislation is still under development, but Albania has adopted a methodology to identify the highest-risk products that should be the priority for transposition. Following this approach, which also takes business requirements and inputs from the market surveillance inspectorate into account, Albania transposed the regulation for elevators in 2017 and plans to transpose the legislation on electrical appliances in the last quarter of 2018.

Significant progress has been made in transposing European standards into national standards. As of September 2018, Albania had adopted 98% of European standards. The General Directorate of Standardisation (DPS) adopted 2 839 standards in 2017: 2 146 European standards and 693 other standards from the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC). However, in most cases the transposition is done using the "cover page" method, where only the cover page is translated into Albanian, which makes it difficult for SMEs to easily grasp the content of the standards. Only the Eurocodes have been adopted by translating them into Albanian.[11] In June 2018, Albania fully transposed EU Regulation No. 1025/2012 on European Standardization, thereby meeting the target set by the National Plan for European Integration 2017-2020.

The DPS is operational and adequately staffed. It is a full member of the European Telecommunications Standards Institute, an affiliate member of the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). The DPS has also conducted a needs assessment to participate fully in the EU standards system and plans to apply for full membership of CEN/CENELEC by the end of 2020. It is a correspondent member of the ISO and an associate member of the IEC. Sales of standards have increased by 42%, from 500 in 2016 to 713 in 2017, but revenues from these sales go directly to the state budget. This weakens any incentive for the DPS to further increase sales of standards, or to increase revenues from other publications, training and other services.

Albania's legislation on the accreditation of conformity assessment bodies (CABs) is in line with the relevant provisions of Regulation (EC) No. 765/2008, which sets out the requirements for accreditation. Moreover, it has already adopted all secondary acts in the field of accreditation. Currently, there are 69 accredited CABs in total (47 laboratories, 15 inspection bodies and 7 certification bodies), up from 46 in 2016. SMEs can easily find CABs through an online register on the website of the General Directorate of Accreditation (DPA), Albania's national accreditation body, but a lack of local CABs means SMEs need to look abroad for conformity assessments for electrical appliances and food sectors. The DPA is supporting laboratories to extend the scope of their activities, which is also reflected in the steadily increasing number of accredited CABs.

The DPA is a full member of the European co-operation for Accreditation (EA) and was assessed positively in its peer evaluation in 2017. The EA Multilateral Agreement (EA MLA) signed by the DPA covers only testing (excluding medical laboratories), inspection and management system certification laboratories. In comparison, the EA MLAs for Turkey and Serbia cover seven and six scopes of accreditation respectively. The DPA is a full member of the International Laboratory Accreditation Cooperation (ILAC), an ILAC Mutual Recognition Agreement signatory and a member of the International Accreditation Forum. While the DPA is operational, it is not adequately staffed, with 14 employees and 60 external auditors and technical experts. Albania has allocated more funds to hire additional auditors and technical experts to handle the growing number of applications from CABs.

In the field of metrology, Albania's legislation is yet to be fully aligned. However, it has made progress since the previous assessment, transposing the Measuring Instruments

Directive 2014/32/EU in 2017. With 100 employees, the Albanian Metrology Institute is adequately staffed and operational. It is an associate member of the European Cooperation in Legal Metrology, a member of the European Association of National Metrology Institutes and of the International Organisation of Legal Metrology and an associate member of the International Bureau of Weights and Measures.

Since the last assessment, Albania has made progress by further strengthening its market surveillance. To overcome the challenge of overlapping competences (in secondary legislation and in practice) among the National Food Authority, Agricultural Directorate, Public Health Directorate, State Health Inspectorate and local government agencies, it established the State Inspectorate for Market Surveillance in 2016. Since then, a number of market surveillance activities have been merged. The inspectorate is operational and has clearly defined competences and tasks. A needs assessment in 2017 revealed the need to recruit specialised staff, and its budget has been amended accordingly to increase the number of employees from 60 to 90. In 2017, it carried out more than 400 inspections and around 700 products were withdrawn from the market. It now also has standard operating procedures for market surveillance inspectors and a methodology in place for the classification of risks and serious risk assessment.

SME access to standardisation

Albania seeks to raise awareness about the importance of standards, in particular by publishing quarterly bulletins that provide information on the adoption of new standards and on amendments to the existing ones. The bulletins are published on the DPS website and disseminated by e-mail and through the Chamber of Commerce. The DPS also publishes annual catalogues of Albanian standards, and distributes them in both paper and compact disc versions. According to its 2017 annual report, it also published 26 different promotional materials. However, it does not provide practical guides on the implementation of standards and has not prepared any case studies on the benefits of standards.

Although the Chamber of Commerce and Industry of Tirana and AIDA have organised several awareness-raising events in the past, the DPS did not play an active role in them. In 2017, it organised one event at the University of Tirana to raise awareness about standards. Training events on implementing standards are also infrequent and irregular, mainly due to limited budgets.

Albania has not introduced any financial measures to help SMEs to buy standards or reduce the cost of their participation in standardisation. SMEs and other stakeholders that are involved in the work of Technical Committees do benefit from a 50% discount on acquiring standards and participation in the work of the committees remains free. The Competitiveness Fund run by AIDA supports SMEs exporting their products to foreign markets by reimbursing up to 70% of their costs related to product certification, conformity assessment and the introduction of quality management systems. However, SMEs can be deterred from applying by perceptions of the cumbersome requirement to demonstrate their ability to finance the entire project costs.

The way forward for Dimension 7

Despite Albania's progress in transposing EU standards and strengthening its institutional quality infrastructure capacity, several remaining challenges can be addressed through the following steps:

- **Increase the EA MLA's coverage** to facilitate SME access to export markets and to strengthen the competitiveness of their exports. The EA MLA provides confidence that national accreditation is harmonised and consistent with the accreditation procedures in the European Union. This makes exporting and access to new markets easier and less expensive for SMEs because having once been tested or certified by an EA MLA-accredited body, there should be no need to retest or recertify their products. Currently, Albania only has EA MLA coverage for testing, inspection and management system certification laboratories. As a result, SMEs that undergo conformity assessment from CABs for calibration, certification of (both) products and persons, or medical laboratories, may not be accepted in the EU Single Market and other export markets. The DPA should therefore aim to expand the EA MLA coverage and ensure it has adequate capacity for the ensuing peer evaluation process.
- **Seek additional channels to raise awareness of the benefits of standards among SMEs**. Currently, the DPS's activities to raise awareness of standards are limited to publishing quarterly bulletins and various promotional materials. Although it strives to disseminate its publications to SMEs through a variety of channels, SMEs are often not interested. The DPS needs to take more proactive measures to reach out to SMEs. It could develop sets of standards relevant for particular sectors or disciplines and present them to SMEs at events of interest to their sector. The start-up packages used by Austrian Standards International (ASI) are a good example of how to raise awareness of the benefits of standards among particular segments of the SME population (Box 13.6). Moreover, the ASI's co-operation with start-up networks shows the positive results of creating standards-related communities.

Box 13.6. Austrian Standards International's start-up packages

Austrian Standards International (ASI), the national standards body of Austria, co-operates with three start-up networks in the country: weXelerate, Austrian Startups and Start-up Live. Building on the ASI's customised start-up package, this platform helps to make start-ups aware of the importance of Austrian standards (ÖNORM), as well as European standards and ISO standards, for their innovation processes. It aims to assist start-ups in bringing their products and services to market and in growing sustainably.

The ASI's start-up package is customised to meet the needs of the innovative start-up community. It allows young entrepreneurs to draw on existing standards and best-practice solutions even in the set-up phase. The start-up package includes:

- a free info check: employees of ASI discuss with start-ups which existing standards could support and help them in a specific market
- an initial set of freely selectable standards at a reduced flat rate for getting started
- reduced participation fees for seminars and courses for quickly acquiring the know-how needed
- success stories of Austrian enterprises applying standards.

The ASI also co-organises start-up events and sometimes hosts them at its premises, including a three-day international pitching event in October 2018. At this event, young entrepreneurs can present their ideas, but also get feedback from ASI experts on how to benefit from standards to grow their start-up.

Sources: Austrian Standards (2018[33]), *Standards Support Start-ups Right from the Start*, www.austrian-standards.at/en/newsroom/release/standards-support-start-ups-right-from-the-start/; Austrian Standards (Austrian Standards, 2018[34]), *Start-up Package*, www.austrian-standards.at/en/products-services/managing-standards-professionally/weitere-informationen-speziell-fuer-ihren-bedarf/start-up-package/.

Enterprise skills (Dimension 8a)

With a score of 3.40, Albania is among the top performers in the region for this dimension (Table 13.16).

Table 13.16. Scores for Dimension 8a: Enterprise skills

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 8a: Enterprise skills	Sub-dimension 8a.1: Enterprise skills	Planning and design	3.50	3.38
		Implementation	3.50	2.83
		Monitoring and evaluation	3.00	2.29
		Weighted average	**3.40**	**2.87**
Albania's overall score for Dimension 8a			**3.40**	**2.87**

State of play and key developments

Labour skill shortages in Albania have been reported as a severe constraint for companies (UNESCO, 2017[35]). There is also evidence of an inadequate supply of skills in the labour market, largely due to the lack of preparation and training in the pre-university education system (World Bank, 2015[36]). Since 2018, Albania has been moving forward with implementing smart specialisation,[12] for which a sufficient stock of quality skills are important, particularly for growing enterprises and export-oriented companies.

Albania received support under the EU's Instrument for Pre-Accession Assistance (IPA 2007) to develop and conduct annual TNAs in order to ensure a regular overview of current and future SME training needs and develop a guiding framework. The Business and Investment Development Strategy (BIDS) foresees the biennial collection and analysis of SME training needs, including disaggregated data on women entrepreneurs. This role was entrusted to AIDA in 2010. However, the decision was not accompanied by budgetary resources and in practice no further SME TNAs have been conducted.

The National Employment Service (NES) implements a wider employers' survey which is carried out biennially when donor funding is available. The survey does not address the specific management training needs of the owners of SMEs, though it does distinguish between Albanian-owned and foreign or joint ventures. The 2017 Skill Needs Analysis, conducted in all 12 regions, identified skills shortages and the occupations where employees lack the required skills or are hard to recruit. The results of the TNA reveal significant skills gaps, with 38% of micro, 55% of small, 56% of medium-sized and 65% of large companies reporting unsuitable qualifications among jobseekers as their major employment-related concern. The survey also analysed the extent of in-company training provision. Training levels are much higher in foreign-owned or joint ventures.

AIDA is at the helm of most financial support mechanisms and co-ordinates donor support to pre-start-ups, youth and women's start-ups. However, the BIDS' strategic objective of increasing SME competitiveness and stimulating new enterprises is not matched by the size and visibility of funds allocated to the entire growth pipeline from the seed stage onwards.

The way forward for Dimension 8a

Although Albania is doing well in this dimension, the following challenges remain:

- **Maximise the value of overall skills intelligence by establishing a dedicated and fully resourced co-ordinating body.** Ensure AIDA has the necessary resources (human and technical) to conduct SME TNAs in practice and to engage ministries and agencies at different levels of government, the private sector and civil society in contributing to policy design, implementation, donor co-ordination and the monitoring of SME skills. Alternatively, the NES's survey could be expanded to collect intelligence on SME-specific training needs which would allow decision makers to match training provision with the requirements of SMEs, to improve training participation and effectiveness.
- **Expand TNAs to identify the specific management training needs of SME owners.** Albanian SMEs, and in particular the many micro and rural companies, need to improve their innovation and growth capacity. AIDA's TNA should be expanded to identify and target the specific training needs of SME owners. The capacity to innovate requires a complex set of skills, networks and processes which the government should nurture through training, coaching, mentoring and networking.
- **Expand training provision in order to ensure adequate supplies of skills in the labour market.** In view of global competition and in preparation for EU accession, the government should explore options for allocating additional resources to ensure that SMEs' sustainability and growth are not hindered by skills gaps, including in key competences. Investments, possibly through AIDA, could target business skills through training and coaching SMEs, and vocational or professional skills for specific sectors once they are identified through the smart specialisation approach.
- **Encourage co-operation between education and businesses through easy access to information.** Currently several online platforms provide information on training opportunities to SMEs, such as the online job portal "DUAPUNE" and the Chamber of Commerce and Industry of Tirana (also through Facebook). Albanian SMEs would benefit from a single source of information about SME policies, training and funding, good practice, information and contacts. Closer co-operation at sector or regional/local level between SMEs and education and training providers could be an important part of the solution for strengthening SME skills for growth and competitiveness. As AIDA is in charge of co-ordinating most of the existing financial support mechanisms, it could take on this role.

Innovation policy for SMEs (Dimension 8b)

Albania is a mid-level performer on innovation policy in the region, being ranked fifth out of the seven WBT economies for this dimension. With a comparable score to Montenegro (2.53), Albania only outperforms Kosovo* (2.40) and Bosnia and Herzegovina (1.86). It has effectively stagnated since the 2016 assessment, with its score rising from 2.38 to 2.48 in 2019 (Figure 13.1). There are no particular areas of innovation policy in which Albania stands out as it scores close to the regional average across all sub-dimensions (Table 13.17).

Table 13.17. Scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 8b: Innovation policy for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	3.60	3.46
		Co-ordination of innovation policy	2.33	2.97
		Implementation of innovation policy	2.57	3.04
		Weighted average	**2.83**	**3.15**
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	1.71	2.99
		Technology extension services for established SMEs	2.50	1.74
		Weighted average	**2.03**	**2.49**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	3.80	3.76
		Indirect financial support	1.00	1.38
		Weighted average	**2.68**	**2.81**
	Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	2.00	2.52
		Institutional infrastructure for industry-academia co-operation	1.80	2.72
		Intellectual property rights	2.50	3.00
		Weighted average	**2.02**	**2.70**
Albania's overall score for Dimension 8b			**2.48**	**2.86**

State of play and key developments

Policy framework for innovation

The policy framework for innovation in Albania is spread across three documents: the National Strategy on Science, Technology and Innovation (2017-2022); the Business and Investment Development Strategy (2014-2020); and the Innovation Action Plan of the Policy Framework for Innovation (2017-2022), which was prepared in co-operation with the OECD. The government plans to establish a working group on innovation to co-ordinate innovation policy horizontally but this group has not yet been formed. In the meantime the Council of Higher Education and Scientific research is the key advisory

* 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.

body to the government on innovation policy. Several agencies play some role in implementing innovation policies in Albania, including NAIS, AIDA and the Agency for Research, Technology and Innovation (ARTI). However, there is little co-ordination among these agencies and they all have very limited resources to implement programmes.

Government institutional support services for innovative SMEs

Albania has no public incubator support programmes. Until recently, the Innovation Hub in Tirana provided some support for young entrepreneurs and was funded by the Italian-Albanian debt-for-development swap programme but it ceased operations in 2017. It is expected to reopen but details of its future activities or funding sources are still unavailable.

Despite the lack of public funding to support innovation infrastructure, some donor-funded incubator and accelerator programmes do still exist. Notable examples include the Korca Incubator Center Oficina Accelerator Programme, PROTIK, the Albanian Innovation Accelerator, and the virtual business incubator Marin Barleti.

AIDA offers technology extension services in the form of technology audits performed by staff who have been trained as technology brokers. However, AIDA is in the process of restructuring its support for innovative SMEs in light of the independent evaluation conducted by GIZ (see Section 0 for more information). This study concluded that its existing programmes are ineffective and put unnecessary administrative burdens on companies, explaining the generally low interest in these types of support (Memi and Shkodrani, 2017[32]). One of the recommendations of the report was to merge all funds into one instrument which would then provide substantial support to the best proposals.

Government financial support services for innovative SMEs

Since 2013, AIDA has been running the Innovation Fund, providing financing for innovative companies. Prior to 2018, AIDA had been giving grants, known as innovation vouchers, of up to ALL 350 000 (approximately EUR 2 700), covering up to 85% of project costs, but there was little interest in this instrument due to the administration involved. A total of 29 companies were funded through this programme over the period 2013-18.

In 2018, the government allocated ALL 15 million (approximately EUR 115 000) to the fund. Enterprises can now benefit from up to ALL 400 000 (approximately EUR 3 100) for a project, and ALL 600 000 (approximately EUR 4 700) for the purchase of technological equipment. Grants can cover up to 50% of total costs within these limits.

Due to the generally low interest shown in its co-financing schemes, AIDA has started organising awareness-raising activities called Info Days; in 2018 it organised a total of six events in different municipalities.

No indirect financial support exists in the form of research and development (R&D) tax incentives other than reduced tax rates for SMEs involved in software production.

SME and research institution collaboration and technology transfer

Albania has no programme to directly fund business-academia collaboration although both businesses and research organisations are eligible to apply for ARTI calls for proposals (which are limited in the amount of funding offered due to low budget allocations). In 2015, AIDA organised, in partnership with the OECD, a pilot triple-helix[13] competition which brought together 25 consortia consisting of business, academia and government representatives to develop project proposals. Three of the best proposals were supported. The government plans to continue this competition as a way of forging co-operation among these three key groups of stakeholders.

No universities have technology transfer capacities. However, there are five established government agriculture technology transfer centres which provide agriculture businesses and farmers with agriculture extension services. With regards to intellectual property (IP) regulation, a general legal framework for IP exists but it does not define ownership of IP produced through publicly funded research.

The way forward for Dimension 8b

Many challenges remain in boosting SME innovation in Albania:

- **Create well-designed, properly funded and reliable financing instruments**. Rather than spreading scarce government resources over several funding instruments – which generate little interest from businesses and do not provide sufficient funding to accomplish proposed objectives – focus on creating one instrument, designed according to good practices, which gives the best companies enough seed funding to conduct proof-of-concept and R&D activities. Ensure that decision making is performed in an independent and expert manner and regularly monitor and evaluate these instruments.
- **Improve co-ordination of innovation policies**. With a number of agencies and ministries having some link to innovation policy, a horizontal co-ordination mechanism is needed. Placing this co-ordination at a high political level would also ensure that innovation is at the heart of economic policies.
- **Further advance collaboration between business and academia**. Albania lacks many elements of an innovation ecosystem, including technology transfer offices, business incubators, accelerator programmes, and science and technology parks. In general, innovation support organisations such as these can help bring together actors in the innovation ecosystem and can support business-academia collaboration, knowledge transfers and commercialisation activities. When funding is limited, centralised technology transfer capacities (in the largest university or linked to one of the agencies) can help perform this function for all research institutions. Rather than establishing incubators or constructing buildings to create science and technology parks, the government could use its resources more efficiently to support the best private sector initiatives in this area.

SMEs in a green economy (Dimension 9)

With a score of 1.98, Albania is among the lowest performers in the WBT for this dimension, alongside Kosovo. Having scored 2.29 in 2016 (Figure 13.1), its performance has slightly deteriorated – however, due to the changes in the assessment methodology, the drop in score suggests this policy area has stagnated (Table 13.18).

Table 13.18. Scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.40	3.81
		Implementation	1.80	2.56
		Monitoring and evaluation	1.50	2.12
		Weighted average	**2.22**	**2.85**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	1.67	2.32
		Implementation	2.17	2.76
		Monitoring and evaluation	1.00	1.72
		Weighted average	**1.78**	**2.42**
Albania's overall score for Dimension 9			**1.98**	**2.61**

State of play and key developments

Framework for environmental policies targeting SMEs

In Albania, environmental policies for SMEs are included in the SME strategy – BIDS 2014-20. Resource efficiency, cleaner production and eco-innovation are at the core of the SME greening measures included in this strategy. In particular, it emphasises the need to increase the range of ecological products created through the effective use of resources for cleaner production. The main target in this area is to increase the percentage of companies applying cleaner production processes by 2020 to 3-5%. However, no concrete measures have yet been defined or implemented to achieve this goal.

The one concrete measure related to SME greening in the BIDS is awareness raising about the further development of eco-products and services, eco-labelling, recycling and eco-certification. However, there is no evidence that these activities have ever been carried out.

Even though the government has not expressly prioritised a green economy, it did make some positive moves in this area during 2018. The new Environmental Cross-cutting Strategy (2018-2022) was adopted, albeit after a two-year delay after the previous strategy expired. It focuses on raising awareness on SME greening and increasing resource efficiency. The new waste management strategy (2018-33) also contains environmental policies for SMEs.

Even though Albania's green SME policies are mostly well designed, they rarely translate into concrete actions. This is in part due to restricted government funding earmarked for the implementation of greening measures, meaning international agencies and donor agencies are regularly approached to explore co-financing possibilities. Eventually, the volatility of allocated funds causes frequent interruptions and delays in programme implementation, and hampers overall performance.

The National Agency of Environment of Albania, established in 2014, is the main national body for environmental monitoring, assessment and environmental reporting. It provides information and advice on how to enhance environmental performance, but these activities target the general public rather than enterprises.

Incentives and instruments for SME greening

During the reference period, Albania did not establish any mechanisms to provide financial incentives to encourage SME greening. The same applies to regulatory instruments and green public procurement policies, which continue to be unused in Albania.

The way forward for Dimension 9

Some measures related to SME greening are being introduced but their implementation remains limited. The government is recommended to focus on the following measures:

- **Ensure the effective implementation of the planned SME greening measures**. Although environmental policies specifically designed for SMEs have become part of the SME strategy for the first time, these stated objectives should be transformed into concrete actions through regular implementation. The government is recommended to identify, or create, a government unit whose main responsibility would be to ensure that these activities are actually being undertaken. This task could be entrusted to AIDA, which is already in charge of SME policy implementation.
- **Step up efforts to raise awareness of the benefits of greening activities among SMEs**, such as cost savings and increased productivity. Such activities have already been introduced in the SME strategy but have not been implemented. The government is therefore recommended to organise workshops and training, distribute successful case studies, and disseminate guidance on how to improve environmental performance. The National Agency of Environment of Albania, which already conducts some of these activities for the general public, could also devise tailored guidelines and organise specific activities directed at SMEs. An interesting example on how to go about these measures effectively is offered by Ireland's Environmental Protection Agency (Box 13.7).

Box 13.7. Green Business Ireland: Raising awareness of greening advantages to SMEs and enhancing resource efficiency

In 2011 the Environmental Protection Agency of Ireland formed the Green Business Programme under its National Waste Prevention Programme. Its aim was to deliver substantive resource efficiency improvements and cost savings through waste prevention and reductions in water and energy consumption. The programme is managed by the Clean Technology Centre (CTC) at the Cork Institute of Technology. The CTC, established in 1994, has a team of experts in resource efficiency and waste prevention.

The Green Business Programme provides a range of services to help SMEs increase their resource efficiency: site visits, guidance documents, online tools, seminars and community networking. By registering at www.greenbusiness.ie and using the online audit tools, users can start to measure their resource use and identify where savings could be made. Businesses can request a site visit, during which a Green Business Advisor will visit their premises and identify free and low-cost measures that will lead to cost savings. The service is free of charge, and operated by the CTC on behalf of the Environmental Protection Agency.

To date, with an annual budget of EUR 350 000, the Green Business Programme has visited 270 enterprises from a range of sectors (food processing, banking, public sector, small retailers) and identified an estimated EUR 10 million of savings for its member enterprises (EUR 6.2 million in energy, EUR 2.7 million in waste and EUR 1.2 million in water). The individual savings identified ranged from EUR 2 000 to EUR 200 000.

Some of the lessons learned from the experience of Green Business is that SMEs are not monitoring their utility costs and are unaware of the extent of waste. In addition, they are unaware of the opportunities to reduce waste at no cost or low cost as well as the opportunities to improve their bottom line and enhance their image. They often also have no awareness of the assistance available to improve their environmental performance.

The example of Green Business demonstrates how a cost-efficient and effective support mechanism can be designed, involving co-operation between the government and academia, which brings various benefits just by identifying potential savings that businesses are usually unaware of. The model underlines the importance of providing advice and guidance to SMEs to "go green".

Sources: Green Business Programme (2017[37]), *GreenBusiness website*, http://greenbusiness.ie/; EPA (2018[38]), *Green Business Initiative*, www.epa.ie/waste/nwpp/gbi/, EPA (2018[39]), *National Waste Prevention Programme*, www.epa.ie/waste/nwpp/.

- **Use efforts to promote and support innovation to also target eco-innovation.** The promotion of eco-innovation is one of the key SME greening measures in the BIDS. In parallel, the government has also strongly emphasised promoting innovation more widely, and building a system that would provide financial support to innovative SMEs through the introduction of voucher schemes. Linking these efforts and introducing eco-innovation in the government innovation portfolio would be highly advantageous both for SMEs and society as a whole. Eco-innovative enterprises could benefit from both financial and non-financial support schemes, and there would be no additional cost to the government.

Internationalisation of SMEs (Dimension 10)

Albania has fallen considerably behind the other WBT economies in this dimension. Its score substantially decreased over the assessed period, from 3.23 to 2.68 (see Figure 13.1). The initiatives it does have are weakly supported with few programmes in place.

Table 13.19. Scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	5.00	4.86
		Implementation	4.29	4.24
		Monitoring and evaluation	3.71	3.01
		Weighted average	**4.39**	**4.18**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	1.40	3.58
		Implementation	1.00	3.08
		Monitoring and evaluation	1.00	1.76
		Weighted average	**1.12**	**2.97**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.29	3.45
		Implementation	1.00	2.26
		Monitoring and evaluation	1.00	1.36
		Weighted average	**1.69**	**2.44**
Albania's overall score for Dimension 10			**2.68**	**3.43**

State of play and key developments

The cost of border compliance increased for both imports (from USD 52 to USD 77) and exports (from USD 30 to USD 55) over the period 2014-17 (World Bank, 2017[40]). Albania increased both the time and costs needed for border compliance in 2017, when it made trading across borders more difficult by introducing mandatory scanning inspections for exports and imports (World Bank, 2018[41]).

However, SMEs have improved their trade performance, increasing their share of exports from 47.1% to 61.2% over the period 2014-17.

Export promotion

The BIDS, which was developed through formal consultation with the private sector, outlines Albania's export promotion programmes.[14] AIDA has been implementing export promotion activities since 2010. Despite having operational autonomy to carry out its activities, AIDA has relatively limited funds and only five employees dedicated to export promotion. It has a fully government-funded annual budget of EUR 95 000 for export promotion. It also provides technical support, covering the provision of market information, assistance in drafting marketing plans, and identifying SMEs' needs and training deficiencies.

Since 2007, export promotion activities have been financed by the Albanian Competitiveness Fund, managed by AIDA. In 2017, 77 SMEs benefitted from financial support for export promotion through the fund. Support to SMEs included covering 70% of export costs related to product improvements (e.g. packaging, product conformity and certification), international trade fair participation and promotional materials.

AIDA's Board of Directors and the Ministry of Finance and Economy regularly monitor its activities for effectiveness in achieving exports, and an independent evaluation of the funds used by AIDA has been carried out (see Box 13.5).

Albania also provides support for the exports of goods and services through Export Credit Guarantee Funds. SMEs are increasingly using trade finance, as all major banks and some non-bank financial institutions provide trade finance loans, guarantees and letters of credit.

Integration of SMEs into global value chains

Albania does not yet have an official government programme in place to support SMEs' integration into global value chains. Albania's BIDS foresees support for industrial cluster development, although there have not yet been any tangible results and AIDA has not made any financial support for clusters available so far.[15] AIDA has held workshops on the theme of cluster development. It also provides services for foreign investors seeking partnerships with enterprises by actively encouraging SME participation in cluster matchmaking events.[16]

In the meantime, the perception of cluster development in Albania improved between 2014 and 2018, according to the World Economic Forum's *Global Competitiveness Index*. However, Albania still had the lowest perceived level of cluster development of all WBT for which data was available in 2018 (WEF, 2017[42]).

To boost links among SMEs, Albania has created an online business-to-business (B2B) platform to help SMEs identify and connect with potential partners, and share information on trade fairs and activities.

Despite the lack of continuous government programmes, a variety of export-oriented activities have been carried out by different entities. During European SME week, the Ministry of Finance and Economy, in co-operation with the Albanian Institute of SMEs, organised the Speed Up to Europe event, which also covered the topic of quality standards for Albanian products. The event relayed key support services to over 60 representatives from the private sector. The EBRD has been co-operating with the Albanian Consulting Network to implement an EU-funded advisory project to help Albanian SMEs access capacity building and know-how by establishing links to local and international consultancy services firms.

The Italian-Albanian Programme for Private Sector Development in Albania has been carried out with support from both governments. The programme provides financial and non-financial tools to assist beneficiary SMEs to invest in improving the quality of their manufacturing processes.

Promoting the use of e-commerce

Albania is one of the WBT economies furthest behind in its promotion of e-commerce. It has no institution responsible for promoting for e-commerce, nor any centralised website providing easily accessible information about it. The B2B platform it has established could help promote e-commerce and the Competitiveness Fund offers financial assistance to SMEs for the design of web pages, the development and promotion of e-commerce, and the design and publication of promotional materials.

The current Digital Agenda of Albania 2015-2020 (see Section Operational environment for SMEs (Dimension 4)) does contain an ambitious e-commerce strategic target of increasing the share of businesses using e-commerce to 50%, but there are not yet any concrete programmes in place to meet it.

Albania has offered financial support programmes for e-commerce and e-business in the past but the programmes largely failed due to the relatively low amount of money offered per applicant (OECD, 2016[14]). Currently, there are no mechanisms to inform SMEs about e-commerce or support them in implementing it. Although they can apply for funds for e-commerce investment through the Competitiveness Fund, no funds have been disbursed to SMEs for this purpose during the assessment period.

Albania's current law on e-commerce was adopted in 2008; the authorities are revising the law, and a draft is currently undergoing consultation. Meanwhile, the legislative framework on e-signature complies with the EU framework (OECD, 2016[14]). It has also adopted a consumer protection strategy, although its implementation has been deemed weak (OECD, 2016[14]).

The way forward for Dimension 10

Albania could strengthen its support for the internationalisation of SMEs through the following measures:

- **Centralise information on exiting efforts to boost SME exports** by leveraging the government's networking capacity. Current efforts to provide support services for SME internationalisation are fragmented and carried out by a range of actors. AIDA could use its website, and particularly its B2B platform, to ensure the open and constant flow of information to SMEs.
- **Develop a holistic approach to supporting SME integration into global value chains** through programmes that promote supplier development and cluster linkages for SMEs. Albania could build upon its provision of information to provide targeted support for coaching and mentoring SMEs in key areas such as design and production engineering to reach the standards of their target markets. This may include sending in technical teams to advise on upgrading as well as helping SMEs to develop their capacity to negotiate with multinational enterprises (MNEs) to establish and improve their supplier development programmes (UNCTAD, 2010[43]; OECD, 2008[44]). In particular, matchmaking services between SMEs and MNEs based on MNE needs and SME competences could facilitate the formation of MNE-SME linkages. The comprehensive supplier development programme implemented by the Czech Republic represents a very successful example of strengthening linkages between MNEs and SMEs, and enhancing SMEs' capacities to export (Box 13.8).
- **Ensure a sound legal and operational environment to support e-commerce** by further harmonising the laws on e-commerce with the EU framework and by promoting ICT coverage and adoption among SMEs as envisioned under Albania's Digital Agenda. Albania should bolster the initiatives it has proposed with a solid action plan that sets out clear measures and steps to be taken, with corresponding impact indicators

Box 13.8. The Czech Republic's Supplier Development Programme

The Czech Supplier Development Programme in Electronics and Automotive was implemented by CzechInvest between 2000 and 2002. The programme aimed at improving the competitiveness of Czech SMEs to the level required to enter global value chains by becoming suppliers to MNEs. A related objective was to develop a local world-class supplier base.

A dozen MNEs were involved throughout the project and 45 SMEs received targeted training based on needs discovered during business reviews. The MNEs were closely involved from the outset. They were asked to nominate companies for the programme, although other sources were also used to identify companies with potential which had had no or little contact to date with MNEs. In total, 200 companies were reviewed in detail, of which 73 were invited to participate.

A two-day business review was undertaken in each of the 45 companies. This was based on the European Foundation for Quality Management model and looked at the whole business. In addition to focusing on the most important areas of performance to meet MNE requirements, the aim was to get participation and buy-in from company management and convince them of the value of a process, which would require a major commitment of management time if it was to be worthwhile.

The main output of the business review was a short-term (six months) self-improvement action plan. This was essentially about helping companies to help themselves, working with company management to benchmark them against MNEs' international standards and competitive requirements, and to review the way forward for their business. To help the companies implement their short-term action plans, a series of general workshops was held, focusing on the key areas for improvement identified in the first round of business reviews. These tended to be in softer management skills and awareness rather than technical skills; the two broad themes of the workshops were strategy and change, and operational efficiency.

At the end of the six months, a second round of one-day business reviews was undertaken, solely by the external assessors, to gather the information needed to select 20 companies for the final intensive support phase. The project established a selection system that was as objective and transparent as possible, balancing companies' current performance and capability, and their commitment and capacity for improvement demonstrated between the two business reviews.

This final phase was the crucial stage in developing the companies to meet internationally competitive standards. It provided individually tailored and targeted one-to-one support, as opposed to the more general support given up to that point. This was delivered by an individual mentoring team for each company, consisting of an EU expert lead mentor and a Czech independent consultant (thus ensuring the transfer of skills and experience for future programmes, as well as giving the advantages of local knowledge and language). This phase lasted six months within the formal pilot, but continued thereafter.

All the business reviews and other support were free, but companies joining this stage of the programme were charged a small standard fee of CZK 50 000 (Czech koruna, about USD 1 600 at the time), to establish the principle of charging in line with best EU practice – where similar support was normally provided on a matched funding basis. All companies in the programme continued to receive general support.

The Czech Supplier Development Programme succeeded in strengthening local companies' skills and enhancing the benefits of FDI to the local economy. Suppliers have upgraded their processes and products. The business reviews showed an increase in company performance in the areas required to meet MNE requirements. An evaluation 18 months after the end the programme surveyed all 45 companies participating in the pilot. It found that 15 companies had gained new business which they attributed to the programme, with contracts worth a total of USD 46 million for the period 2000-03. Four companies had also found new customers abroad, and three had obtained contracts for higher value-added content. The share of components sourced from Czech companies by the MNEs participating in the programme increased from a range of 0%-5% at the start to 2.5%-30% by 2004.

Source: WEF (2016[45]), *Manufacturing our Future: Cases on the Future of Manufacturing*, www3.weforum.org/docs/GAC16_The_Future_of_Manufacturing_report.pdf.

Conclusions

Albania's implementation of the Small Business Act has progressed moderately since the publication of the *SME Policy Index 2016: Western Balkans and Turkey*. It currently fares worse than its regional peers in the majority of the policy dimensions.

Implementation of its SME strategy has slowed down, and little has changed in terms of financial and technical support. Despite this stagnation, Albania still boasts one of the most efficient delivery of public services for businesses, creating an environment in which SMEs can thrive. It has embraced digitalisation to reduce administrative burdens and in many areas the legal framework has been strengthened and brought closer to the EU *acquis*.

In the future, Albania needs to revisit its blanket financial schemes designed to foster SMEs competitiveness, and target them towards the most pressing challenges experienced by Albanian SMEs

Notes

[1] The first eight months of 2017.

[2] The WBT region refers to the six pre-accession Western Balkan economies (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) and Turkey. Unless otherwise specified, reference to the "region" in this publication implies these seven economies.

[3] The *Corruption Perceptions Index* ranks countries and territories "by their perceived levels of corruption, according to experts and businesspeople. It uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean" (Transparency International, 2019[12]).

[4] According to INSTAT, investments during the reference period covered those goods, whether bought from third parties or produced for own use, with a useful life of more than one year, including non-produced tangible goods such as land.

[5] Tirana and Durrës districts have the highest percentage of value added in almost all sectors of economic activity. However, the mining and quarrying sector has the highest share of value added,

at 57.4%, in Fier district. In electricity, gas, water supply and waste management, Tirana and Fier districts have the highest share of value added at 37.4% and 11.2% respectively.

[6] In EU countries, SME envoys are appointed by the national government to report on the uptake of the SBA and to promote SMEs' interests through government bodies. The pre-accession countries do not have such SME envoys.

[7] The law provides three sale options: 1) sale of business as a going concern; 2) sale of independent business units; and 3) piecemeal sale of assets.

[8] The administration in charge of company registration and licences and permits – for more information see Section 0.

[9] These standards cover several important areas including 1) the reporting standards, which will provide transparency to the proceedings; 2) the sale of assets from the bankrupt estate (currently there is no rule for the sale of a business as a going concern or of independent business units and no provision for electronic auctions); 3) the liquidation valuation standard for assessing assets from the bankrupt estate, in order to allow the special automatic rules for approval of reorganisation plan voting to be triggered; 4) the monitoring standard; 5) the auditing standard; 6) the licensing/delicensing standard; 7) the disciplinary sanctions standard; 8) third-parties' liability insurance; and 9) the fees and awards of the bankruptcy administrator, custodian, expert etc.

[10] S&P's Financial Literacy Survey covers more than 140 countries asking the population about four basic financial concepts. Further information can be found here: http://gflec.org/initiatives/sp-global-finlit-survey/

[11] Eurocodes are the European Standards for the design of buildings. They cover the most common materials and structures, including bridges.

[12] Smart specialisation originated in the EU as a concept for stimulating innovation driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services, and, finally, economic growth. Human capital, knowledge dissemination and transfer, as well as support to entrepreneurship are all key elements in successful implementation of smart specialisation strategies. For more information, please see Chapter 12 on enterprise skills and Box 13.1 in Chapter 13 on innovation policy for SMEs.

[13] The Triple Helix model encompasses trilateral relationships among industry, government and universities in the process of knowledge capitalisation (Etzkowitz, 2002[50]).

[14] This was covered in the previous assessment (OECD, 2016[51]).

[15] In the past, AIDA was a project partner of the Nucleus Cluster POLISEE (SEE), a European project that aims to develop and increase the capacity of clusters of enterprises in South East Europe. The project is financed by the European Commission through the SEE Programme, and was extended from May 2012 to October 2014. AIDA was the Albanian partner in this ambitious two-year project bringing together 25 partners from 11 countries.

[16] Most recently, AIDA promoted awareness at the Cluster Matchmaking Conference on 21-22 September 2018, held in Stuttgart, Germany; and the EU-Western Balkans Cluster Policy Learning and Matchmaking Event in Zagreb, 22 and 23 November 2018, held in Croatia.

References

Austrian Standards (2018), *Standards Support Start-ups Right from the Start*, Austrian Standards website, https://www.austrian-standards.at/en/newsroom/release/standards-support-start-ups-right-from-the-start/. [33]

Austrian Standards (2018), *Start-up Package*, Austrian Standards website, https://www.austrian-standards.at/en/products-services/managing-standards-professionally/weitere-informationen-speziell-fuer-ihren-bedarf/start-up-package/. [34]

Bank of Albania (2018), *Quarterly Monetary Policy Report, 2018/III*, Bank of Albania, https://www.bankofalbania.org/Monetary_Policy/Monetary_Policy_Report/. [7]

Bergner, S. et al. (2017), "The use of SME tax incentives in the European Union", *Discussion Paper*, No. 17-006, Centre for European Economic Research, http://ftp.zew.de/pub/zew-docs/dp/dp17006.pdf. [49]

Business Forum for Better Regulation (2018), *Business Forum for Better Regulation website*, https://enklereregler.dk/. [28]

datos.gob.es (2018), *Acerca de la iniciativa Aporta [About the Aporta initiative]*, datos.gob.es website, http://datos.gob.es/es/acerca-de-la-iniciativa-aporta. [31]

Early Warning Europe (2018), *Early Warning Europe website*, https://www.earlywarningeurope.eu/. [25]

EBRD (2018), *Transition Report 2018-19: Country Assessments*, European Bank for Reconstruction and Development, https://2018.tr-ebrd.com/downloads/ (accessed on 11 19 2018). [3]

EBRD (2017), *Transition Report 2017-18: Sustaining Growth*, European Bank for Reconstruction and Development, London, https://www.ebrd.com/transition-report-2017-18. [9]

EC (2018), *A Credible Enlargement Perspective for and Enhanced EU Engagement with the Western Balkans*, European Comission, Brussels, https://eeas.europa.eu/regions/western-balkans/39711/credible-enlargement-perspective-and-enhanced-eu-engagement-western-balkans_en. [17]

EC (2018), "Albania 2018 report", *Commission Staff Working Document*, No. SWD(2018) 151 final, European Commission, Strasbourg, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-albania-report.pdf (accessed on 15 October 2018). [47]

EC (2018), *Albania on its European Path*, European Comission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near_factograph_albania.pdf. [19]

EC (2018), "Commission assessment: Economic Reform Programme of Albania (2018-2020)", *Commission Staff Working Document*, No. SWD(2018) 135 final, European Commission, Brussels, http://data.consilium.europa.eu/doc/document/ST-8117-2018-INIT/en/pdf. [5]

EC (2018), *Economic Reform Programmes: Western Balkans and Turkey*, European Commission, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf. [11]

EC (2018), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", *Technical Paper*, No. 028, European Commission, Brussels, http://dx.doi.org/10.2765/319761. [4]

EC (2018), "The Former Yugoslav Republic of Albania 2018 report", *Commission Staff Working Document*, No. SWD(2018) 151 final, European Commission, Strasbourg, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-albania-report.pdf (accessed on 15 October 2018). [18]

EC (2016), *Proposal for a Directive COM/2016/0723 on Preventive Restructuring Frameworks, Second Chance and Measures to Increase the Efficiency of Restructuring, Insolvency and Discharge Procedures and Amending Directive 2012/30/EU*, European Commission, https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=COM:2016:723:FIN. [24]

EIF (2017), *EUR 17m for SMEs in Albania Under the Western Balkans Enterprise and Innovation Facility*, European Investment Fund website, http://www.eif.org/what_we_do/equity/news/2017/wbedif_raiffeisen_albania.htm. [20]

EPA (2018), *Green Business Initiative*, Environmental Protection Agency, http://www.epa.ie/waste/nwpp/gbi/. [38]

EPA (2018), *National Waste Prevention Programme*, Environmental Protection Agency, http://www.epa.ie/waste/nwpp/. [39]

Etzkowitz, H. (2002), "The triple helix of university - industry - government: Implications for policy and evaluation", *Working paper*, No. 2002-11, Swedish Institute for Studies in Education and Research, http://www.sister.nu/pdf/wp_11.pdf. [50]

Eurostat (2018), *National Accounts (including GDP) (database)*, European Commission, https://ec.europa.eu/eurostat/web/national-accounts/data/database. [10]

Green Business Programme (2017), *GreenBusiness website*, https://greenbusiness.ie/. [37]

ILO (2018), *Country Profile: Albania*, International Labour Organization, https://www.ilo.org/ilostat/faces/oracle/webcenter/portalapp/pagehierarchy/Page21.jspx (accessed on 13 September 2018). [48]

ILO (2018), *ILOSTAT*, International Labour Organization, Geneva, http://www.ilo.org/ilostat (accessed on 12 September 2018). [2]

INSTAT (2018), *Statistics on Small and Medium Enterprises, 2016*, Albanian Institute of Statistics, Tirana, http://www.instat.gov.al/media/3841/results-on-sme-from-sbs-2016.pdf. [21]

INSTAT (2016), *Regional Structural Business Statistics, 2016*, Albanian Institute of Statistics, Tirana, http://www.instat.gov.al/en/themes/industry-trade-and-services/structural-business-statistics/publication/2018/regional-structural-business-statistics-2016/. [23]

Memi, A. and E. Shkodrani (2017), *Evaluation and analysis of government support funds for MSME operated by AIDA*, HM&H, Tirana. [32]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, Competitiveness and Private Sector Development, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264298576-en. [6]

OECD (2017), *FDI Regulatory Restrictiveness Index (database)*, OECD, http://www.oecd.org/investment/fdiindex.htm. [13]

OECD (2017), *Government at a Glance 2017*, OECD Publishing, Paris, https://dx.doi.org/10.1787/gov_glance-2017-en. [30]

OECD (2017), *Monitoring Report: The principles of Public Administration: Albania*, OECD/SIGMA, http://www.sigmaweb.org/publications/Monitoring-Report-2017-Albania.pdf. [26]

OECD (2017), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy*, OECD Publishing, http://www.oecd.org/governance/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm. [27]

OECD (2016), *Competitiveness in South East Europe: A Policy Outlook*, Competitiveness and Private Sector Development, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264250529-en. [14]

OECD (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/9789264254473-en. [51]

OECD (2015), *Taxation of SMEs in OECD and G20 Countries*, OECD Tax Policy Studies, No. 23, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264243507-en. [46]

OECD (2008), *Enhancing the Role of SMEs in Global Value Chains*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264051034-en. [44]

Republic of Albania (2009), *Law On Licences, Authorisations and Permits*, Parliament of the Republic of Albania, http://www.qkr.gov.al/media/1255/1-law-no-10-081-dated-2322009.pdf. [29]

Republic of Albania (2002), *Law No.8957, On Small and Medium Enterprises*, Parliament of the Republic of Albania. [22]

Transparency International (2019), *Corruption Perceptions Index 2018*, Transparency International, https://www.transparency.org/cpi2018 (accessed on 13 September 2018). [12]

UNCTAD (2010), *Integrating Developing Countries' SMEs into Global Value Chains*, United Nations Conference on Trade and Development, New York and Geneva, http://unctad.org/en/Docs/diaeed20095_en.pdf (accessed on 1 August 2018). [43]

UNESCO (2017), *Albania, Education Policy Review: Issues and Recommendations: Extended Report*, United Nations Educational, Scientific and Cultural Organization, http://unesdoc.unesco.org/images/0025/002592/259245e.pdf. [35]

WEF (2017), *The Global Competitiveness Index 2007-2018 (dataset)*, World Economic Forum, Geneva, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/ (accessed on 24 July 2018). [42]

WEF (2016), *Manufacturing Our Future: Cases on the Future of Manufacturing*, World Economic Forum, http://www3.weforum.org/docs/GAC16_The_Future_of_Manufacturing_report.pdf. [45]

World Bank (2018), *Business Reforms in Albania*, World Bank, Washington, DC, http://www.doingbusiness.org/en/reforms/overview/economy/albania (accessed on 13 September 2018). [15]

World Bank (2018), *Doing Business 2019: Economy Profile Albania*, World Bank Group, Washington, DC, http://www.doingbusiness.org/content/dam/doingBusiness/country/a/albania/ALB.pdf (accessed on 10 December 2018). [41]

World Bank (2018), *Doing Business 2019: Training for Reform*, World Bank, Washington, DC, http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf. [16]

World Bank (2018), "Vulnerabilities slow growth"*, Western Balkans Regualr Economic Report*, No. 13, World Bank Group, Washington, DC, http://documents.worldbank.org/curated/en/304141523592698571/Vulnerabilities-slow-growth (accessed on 11 September 2018). [8]

World Bank (2018), *World Bank Open Data*, World Bank, https://data.worldbank.org/ (accessed on 12 September 2018). [1]

World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*, World Bank, Washington, DC, http://dx.doi.org/10.1596/978-1-4648-1146-3. [40]

World Bank (2015), "Growth recovers, risks heighten"*, South East Europe Regular Economic Report*, No. 8, World Bank, Washington, DC, https://openknowledge.worldbank.org/handle/10986/23684. [36]

Further reading

EC (2013), *Entrepreneurship Action Plan: Reigniting the Entrepreneurial Spirit in Europe*, European Commission, Brussels, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A52012DC0795.

EC (2017), *EntreComp: The Entrepreneurship Competence Framework*, European Commission, Brussels, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/entrecomp-entrepreneurship-competence-framework

EC (2018), *Proposal for a Council Recommendation on Key Competences for Lifelong Learning*, European Commission, Brussels, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018DC0024.

EC (2018), *DigComp 2.1: The Digital Competence Framework for Citizens with Eight Proficiency Levels and Examples of Use*, European Commission, Brussels, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/digcomp-21-digital-competence-framework-citizens-eight-proficiency-levels-and-examples-use

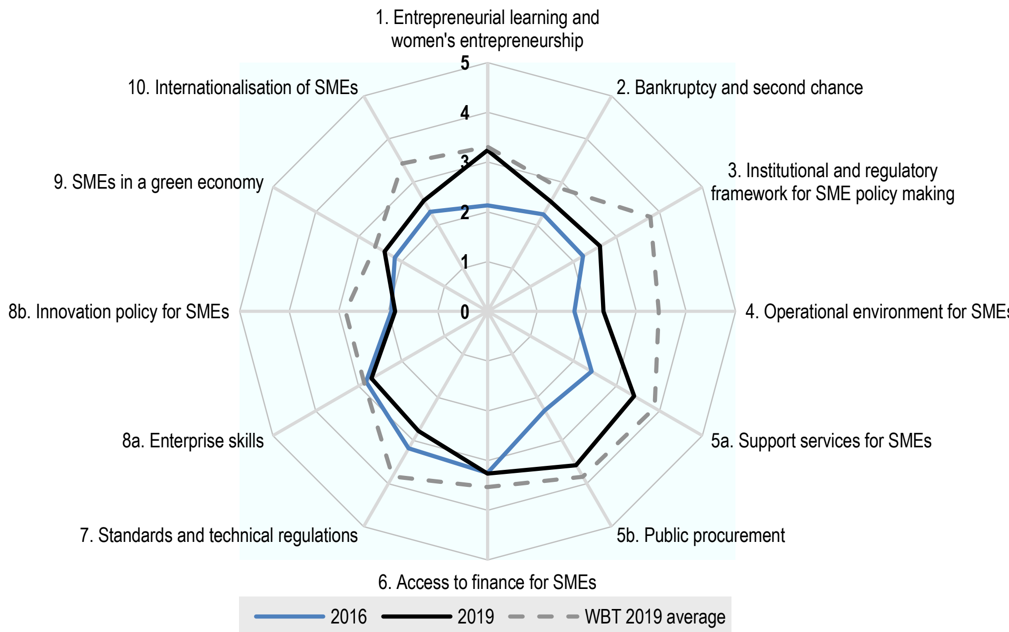
Chapter 14. Bosnia and Herzegovina: Small Business Act profile

This chapter covers in depth the progress made by Bosnia and Herzegovina in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Bosnia and Herzegovina's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 14.1. Small Business Act scores for Bosnia and Herzegovina (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly.

Bosnia and Herzegovina has made good progress in implementing the Small Business Act since publication of the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 14.1) Nonetheless, it is still lagging behind its peers in the region. Most of the developments since 2016 relate to the enhancement of the economy's legal and regulatory environment, which has laid the foundations for better SME policy making. The main achievements that have helped Bosnia and Herzegovina improve its performance in this assessment can be summarised as follows:

The introduction of the EU-financed Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) Programme will help to facilitate access to finance and foreign markets for SMEs. The agreement on participation in the COSME Programme entered into force in February 2017. Given BiH's lack of extensive public support mechanisms, the programme could have significant potential to help SMEs access markets in the EU and beyond.

Banking sector regulation and supervision have been strengthened. New banking laws have been passed, aligning the regulations more closely with the Basel framework. These aim to make banks safer and more sound, meaning SMEs in Bosnia and Herzegovina will be less exposed to bank funding constraints in the long term.

Regulatory impact analysis (RIA) procedures have been set up. The obligation to conduct RIAs when adopting laws and by-laws at the state level was introduced in July

2017. Consistent use of RIA could substantially improve evidence-based SME policy making in the economy.

The e-consultation portal has helped to enhance stakeholder engagement. Following the adoption of the Rules for Consultation on Legal Drafting, SMEs are able to provide their input and feedback on legislative proposals through this new website. The number of public institutions using e-consultation increased from 25 in 2016 to 39 in 2018.

The legal framework for insolvency proceedings has been strengthened. The recently prepared bankruptcy laws in the entities include many features that lay the foundation for efficient insolvency procedures. In the Republika Srpska, SMEs in financial difficulty no longer need to file for bankruptcy, and they can initiate debt-restructuring processes. In less than two years, 11 debt settlements were initiated in BiH, saving 600 jobs.

A new Internet portal has centralised all the information for exporters. A new one-stop shop website has been established, providing information on export opportunities, legal regulations and the support measures available to exporting SMEs. Although currently serving only enterprises in the Republika Srpska, this development is an important milestone in supporting enterprises that aim to penetrate foreign markets.

Priority areas

Bosnia and Herzegovina's constitutional arrangements mean that it does not have a unified approach to SME policy planning and implementation, making it challenging to develop coherent policies. Greater co-ordination across all levels of the administration is needed to ensure a whole-of-government approach to SMEs. This report identifies eight priority areas in which Bosnia and Herzegovina should intensify its activities:

- **Take a concerted approach to SME policies**. Due to the constitutional arrangements, there is no overarching framework guiding SME development for the whole economy. The lack of a state-wide SME definition, and the ensuing gap in harmonised data on SMEs and their activities are problematic and obstruct evidence-based policy making. Greater institutional co-ordination of SME policies would enable concerted action and contribute to higher-impact results.
- **Streamline the business registration process.** Each sub-national level of government establishes its own laws and regulations, adding layers of complexity to the business registration process. Entrepreneurs have to register more than once to be allowed to operate throughout the entire territory of Bosnia and Herzegovina. Enhanced co-operation among different levels of government, allowing for the mutual recognition of business registration, would be a good step towards lowering the barriers to entrepreneurship.
- **Continue to embed entrepreneurial learning in school curricula.** As of 2018, only 10% of all primary and secondary schools had embedded entrepreneurship as a key competence in their curricula. All education authorities should cross-reference their curriculum with the European Entrepreneurship Competence Framework and teachers should be trained to meet the revised pedagogic requirements, which will foster a more entrepreneurial culture.
- **Continue digitalising government services for enterprises**. Despite the adoption of new laws, e-signatures have still not been introduced due to the different legal frameworks across the different administrative levels. The number of online services

for enterprises, such as tax payments, needs to be scaled up, and data interoperability ensured.

- **Adopt a whole-of-government approach to establishing quality infrastructure.** The majority of quality infrastructure institutions are understaffed and suffer from limited budgets, hindering the services extended to SMEs. Given these constraints, it is essential to develop a state-wide quality infrastructure system, creating synergies across the administrative levels and avoiding duplication.
- **Foster the uptake of non-bank financing instruments.** Raising awareness of alternatives to bank financing and how they can help SMEs manage their investments and cash flow is important for improving uptake. The reform of the legal framework for leasing along with the new factoring law in the Federation of Bosnia and Herzegovina are expected to contribute to improved uptake. Similarly, a review of the legal framework in Republika Srpska could further boost the take up of alternative sources of financing.
- **Roll out instruments to foster innovation in SMEs.** With the exception of a recently initiated donor programme, there are no public funds available to stimulate SMEs to undertake innovative projects that might be financially risky. A reliable, well-funded financial instrument should be introduced, providing catalytic funding to all BiH SMEs wanting to conduct research and development, develop prototypes and test their ideas.
- **Provide guidance to SMEs in adopting environmentally sound practices**. SMEs need to be nudged to adopt resource efficiency measures. To achieve this, activities are needed to raise SMEs' awareness of how resource efficiency offers high returns for low-cost investments. This would be the first milestone for Bosnia and Herzegovina on its path towards a green economy.

Economic context and role of SMEs

Economic overview

Bosnia and Herzegovina (BiH) is an upper middle-income economy, with a population of 3.5 million and nominal gross domestic product (GDP) per capita of USD 11 714 at current prices in 2017 (World Bank, 2018[1]). BiH's economy is consumption-driven and one of the most volatile in the Western Balkans and Turkey (WBT) region,[1] with an economic structure that remains highly exposed to external economic fluctuations. The service sector contributes the most value added to the economy, generating 55.8% of GDP in 2017; followed by industry (including construction) at 23.4%; and agriculture, forestry and fishing at 5.8% (World Bank, 2018[1]). Most of the active labour force was employed in the service (48.7%) and industry (32.2%) sectors, while the agriculture sector accounted for 19.1% of total employment in 2017 (ILO, 2018[2]).

Public administration[2] is the third largest economic sector in BiH, constituting over one-fifth of the economy (World Bank, 2018[3]). The reason for such a high share lies in BiH's particular institutional arrangements which comprise the central government, the governments of the two entities – the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) – the Brčko District, 10 cantonal governments within the FBiH, and local administrations.

The economy has recorded a steady 3% annual growth rate since the last assessment (Table 14.1). This trend continued in 2018 – in the second quarter of which GDP rose by 3.4% year-on-year, up from 2.0% in the first quarter, mainly driven by an increase in private consumption and exports of goods and services (EC, 2018[4]). In the medium term, growth is expected to pick up even further, provided that structural reforms continue to be implemented by the new government after the state-wide general elections in October 2018 (World Bank, 2018[3]).

As one of the main drivers of growth, exports rose by 11.9% year-on-year in the second quarter of 2018 (EC, 2018[4]). This strong performance is largely driven by exports to Germany and Italy, as well as to neighbouring economies – Croatia, Serbia and Slovenia. The European Union (EU) is BiH's main trading partner – contributing 80% of its overall export growth in 2017 (World Bank, 2018[3]). Mineral products, base metals and machinery are the most important export categories, accounting for more than two-thirds (69%) of export growth in 2018 (World Bank, 2018[3]). Despite the positive export trend, overall imports have also risen markedly. With no substantial increase in remittances recorded, BiH's current account remains in constant deficit.

Public sector revenues have continued to perform well since the last assessment, with the government registering a surplus of 1.2% of GDP in 2017 (Table 14.1). This was mainly due to improved tax collection and limited spending on public wages. In particular, the February 2018 increase in excise taxes on oil derivatives and the introduction of a road tax and a tax on liquid gas have raised government revenues (World Bank, 2018[3]). However, this positive fiscal situation seems likely to be short term, given the government's latest announcement of new spending measures. In particular, in 2018 both falling tax revenues and increased spending on wages, social transfers and investment were expected to increase the need for lending, causing a deficit of 0.5% of GDP (World Bank, 2018[3]). This is why, in July 2018, the International Monetary Fund (IMF) postponed a discussion on the planned disbursement of the Extended Fund Facility Support Programme's next tranche of around EUR 38 million, due to the need to reassess the country's fiscal position (EC, 2018[4]).

Foreign direct investment (FDI), at around 2% of GDP, is one of the lowest in the WBT region, remaining a weak source of investment in the country. Investors are discouraged by fragmented and poorly functioning product and labour markets, the weak rule of law and a continuing poor business environment (EC, 2018[5]).

On a positive note, however, the banking sector remains liquid, with the share of non-performing loans steadily falling from 11.1% in 2017 to 9.3% in the second quarter of 2018 (EC, 2018[4]). Inflation remains low, at 1.2% in 2017 (Table 14.1), but rose to 1.8% in August 2018, driven by higher prices for tobacco, transport, housing and healthcare (EC, 2018[4]).

Unemployment in Bosnia and Herzegovina continues to be relatively high, the third highest in the WBT region after Kosovo* and the Republic of North Macedonia. However, unemployment fell from 25.4% in 2016 to 20.5% in 2017, supported by a slight increase in employment in the manufacturing, wholesale trade and tourism sectors. Nevertheless, BiH remains the only Western Balkan (WB) economy where employment is yet to recover to the levels seen before the 2008 crisis; the employment rate in 2017 was about 8% lower than in 2008 (World Bank, 2017[6]). The people most affected by high unemployment are 55-64 year-olds and the more highly educated (OECD, 2018[7]). In addition, high youth unemployment (of over 60%) and high levels of long-term unemployment (82% of all unemployed people) remain major sources of concern, as noted in the previous assessment (EC, 2018[4]; World Bank, 2018[3]). Youth unemployment continues to contribute to an endemic brain drain from the country.

Table 14.1. Bosnia and Herzegovina: Main macroeconomic indicators (2013-18)

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth[1]	% year-on-year	2.6	0.2	3.8	3.3	3.4	2.7**
Inflation[1]	% average	-0.1	-0.9	-1.0	-1.1	1.2	1.1
Government balance[1]	% of GDP	-2.0	-2.0	0.6	1.2	2.5	..
Current account balance[2]	% of GDP	-5.3	-7.4	-5.4	-4.9	-4.8	-6.0*
Exchange rate BAM/EUR[1]	Value	1.96	1.96	1.96	1.96	1.96	1.96***
Exports of goods and services[1]	% of GDP	31.8	32.8	33.6	34.4	39.4	40.2**
Imports of goods and services[1]	% of GDP	51.1	54.6	51.4	50.5	55.5	56.2**
Net FDI[1]	% of GDP	1.2	2.8	1.7	1.6	2.0	2.0**
External debt[2]	% of GDP	61.7	61.6	62.3	62.4	61.0	..
Gross international reserves[1]	% of GDP	5.5	5.9	6.3	7.2	7.0	6.5
Unemployment[1]	% of total active population	27.5	27.5	27.7	25.4	20.5	..
National GDP[3]	EUR billion	13.70	13.99	14.62	15.29	..	..

Note: *: projection; **: average of 1st and 2nd quarter; ***: average of the 1st, 2nd and 3rd quarter.

* 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.

Sources: [1] EC (2018[4]), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", http://dx.doi.org/10.2765/319761; [2] EBRD (2018[8]), *Transition Report 2018-2019: Work in Transition,* https://2018.tr-ebrd.com/downloads/; [3]Eurostat (2018[9]), *Eurostat (database)*, https://ec.europa.eu/eurostat/data/database.

Business environment trends

A regulatory and institutional environment which facilitates doing business is a necessary pre-condition for small and medium-sized enterprises (SMEs) to thrive. Despite a positive economic outlook, the business environment in Bosnia and Herzegovina remains highly burdensome. As outlined in its Economic Reform Programme 2018-2020 (Box 14.1), the major reasons for its poor private sector performance stem from a complex institutional set-up, which has created a large and inefficient public sector that dominates the economy.

The significant obstacles identified in the ERP can be summarised as the continuing lack of a single economic space; weak access to finance; weak rule of law; and the complex, unclear and sometimes contradictory legal and regulatory frameworks (EC, 2018[5]; BiH, 2018[10]). In addition to the significant cost of business entry and exit procedures, businesses are subjected to numerous para-fiscal charges. Gaps in contract enforcement and implementation of laws further aggravate the business environment (BiH, 2018[10]).

According to the OECD *FDI Regulatory Restrictiveness Index* (OECD, 2017[11]), Bosnia and Herzegovina is one of the most open to FDI of 68 economies assessed, including OECD and some selected non-OECD countries (OECD, 2018[7]). It maintains only a few restrictions, making its FDI regime less restrictive than that of an average OECD economy or the 22 EU Member States covered by the index.[3] However, it still has to establish comprehensive programmes to create better linkages between foreign investors and domestic firms to enhance the impact of FDI (OECD, 2018[7]).

The widespread informal economy poses another burden on doing business in BiH. This particularly affects SMEs, as the incidence of informality decreases as firms get larger due to the higher costs of regulatory compliance for smaller firms. BiH also performs poorly in terms of corruption levels. With a score of 38 in Transparency International's 2018 *Corruption Perceptions Index*, the country is ranked 89th out of 180 countries and territories (Transparency International, 2019[12]).

One of the additional vulnerabilities of the business environment is the preferential status often granted to its state-owned enterprises. In particular, unlike other WBT economies, BiH has numerous statutory corporations which are subject to treatment that may differ from ordinary corporate norms, giving them undue advantages over private enterprises (OECD, 2018[7]).

Challenges like these were widely expressed in the interviews conducted with SME owners and entrepreneurs in BiH as part of the SBA assessment. The interviewees also emphasised the complexity of procedures related to the business sector and SMEs. They highlighted that setting up a business and obtaining business licences and approvals for construction were particularly burdensome. They did underline one positive achievement in business licensing: a significant number of municipalities in BiH have published written procedures and guidelines for business licensing on their websites, making the procedure clearer and more transparent than in the previous assessment period.

Box 14.1. Economic Reform Programmes

Since 2015, all EU candidate countries and potential candidates are obliged to prepare Economic Reform Programmes (ERPs). ERPs prepare the enlargement countries for their future participation in the EU's economic policy co-ordination procedures. They also play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation.

The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda. The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

1. public finance management
2. energy and transport markets
3. sectoral development
4. business environment and reduction of the informal economy
5. trade-related reform
6. education and skills
7. employment and labour markets
8. social inclusion, poverty reduction and equal opportunities.

The European Commission and the European Central Bank then assess these seven programmes. This forms the basis for a multilateral economic policy dialogue involving the enlargement countries, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include country-specific policy guidance reflecting the most pressing economic reform needs.

The findings of the Small Business Act assessment for the Western Balkans and Turkey provide the analytical background and guidance to the seven EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

Source: EC (2018[13]), *Economic Reform Programmes: Western Balkans and Turkey,* https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf.

All in all, Bosnia and Herzegovina has dropped three places in the World Bank's *Doing Business 2019* report compared to the previous year, and was ranked 89th out of 190 countries – the lowest ranking in the WBT region (World Bank, 2018[14]). The most pressing issues remain dealing with construction permits, starting a business and paying taxes (World Bank, 2018[14]). BiH has made paying taxes easier by abolishing the tourist community fee and has also made some progress on making it easier to start a business (World Bank, 2018[14]). Table 14.2 highlights the most recent business reforms.

Table 14.2. Recent business reforms in Bosnia and Herzegovina

	Reforms making it easier to do business	Reforms making it harder to do business
Doing Business 2017	**Made it easier to start a business** by reducing the paid-in minimum capital requirement for limited liability companies and increasing the efficiency of the notary system. **Facilitated paying taxes** by abolishing the tourist community fee.	None

Note: Only reforms which had either a positive or a negative impact on conducting business were considered.
Source: Adapted from the World Bank (World Bank, 2018[15]) *Business Reforms in Bosnia and Herzegovina*, www.doingbusiness.org/en/reforms/overview/economy/bosnia-and-herzegovina.

EU accession process

During the Thessaloniki European Council Summit in June 2003, Bosnia and Herzegovina was identified as a potential candidate for EU membership. The co-operation between the EU and BiH advanced further following the Stabilisation and Association Agreement (SAA), which entered into force 12 years later in June 2015. The SAA constituted a comprehensive framework for closer political dialogue between the EU and BiH, and for establishing a free trade area.

In February 2016, BiH applied for EU membership, and in September 2016 the European Council invited the European Commission to submit its opinion on the merits of this application (EC, 2018[16]). The questionnaire covering all EU accession criteria was then handed over to BiH, whose consolidated answers were finalised in February 2018 and sent to the President of the European Commission. In June 2018, BiH received follow-up questions from the Commission; it has yet to submit the additional information requested at the time of writing. The Commission will prepare its opinion based on the answers to the questionnaire, peer reviews and consultations with international organisations and civil society.

Bosnia and Herzegovina has continued to implement the SAA and the meetings of the joint bodies under the agreement have taken place, except for the Stabilisation and Association Parliamentary Committee which has yet to adopt its Rules of Procedures (EC, 2018[16]). The EU and the BiH authorities meet annually to discuss a wide range of policy issues and agree on follow-up actions. Progress reports assess the readiness of BiH to move closer to the EU. The findings and recommendations published in the *SME Policy Index: Western Balkans and Turkey* provide the monitoring and guidance needed for BiH to prepare and meet the requirements related to their potential candidate status under “enterprise and industrial policy”.

According to the latest progress report, published in April 2018, BiH has made some progress in the business environment area (EC, 2018[16]). In particular, it has slightly improved its market entry and exit regulation and continued its efforts to facilitate business registration.

EU financial support

The EU is the largest provider of financial assistance to BiH. Between 2007 and 2013, it received a total of EUR 615 million under the first phase of Instrument for Pre-Accession Assistance (IPA) (Delegation of the European Union to Bosnia and Herzegovina, 2018[17]). The second phase, IPA II, will allocate a total of EUR 2.9 billion for the period

2014-20 (including EUR 542 million in unallocated funds for BiH), whereas EUR 165 million was distributed in the first stage (Delegation of the European Union to Bosnia and Herzegovina, 2018[17]). IPA support in BiH is conditional upon it adopting key state-wide strategies (i.e. for the whole economy, including all the entities). The sector strategies for the environment, adopted in May 2017, and for rural development, adopted in February 2018, enabled IPA financing in those sectors. In order to fully benefit from IPA II funding for 2018-20, BiH will need to adopt state-wide strategies for public financial management and employment (Delegation of the European Union to Bosnia and Herzegovina, 2018[17]).

In 2017, BiH joined the EU's COSME financing programme. The following year, the European Investment Fund (EIF) and Procredit Bank established a guarantee agreement to support SMEs in Bosnia and Herzegovina via a guarantee mechanism under the Western Balkans Enterprise Development and Innovation Facility (WB EDIF). The Western Balkans Guarantee Facility agreement has so far provided EUR 22.7 million in SME loans, financing a total of 144 SMEs in BiH (WB EDIF, 2018[18]).

In addition to the EU assistance funds, BiH has received EUR 2.2 billion in European Investment Bank loans since 1999, and another EUR 122 million in Western Balkans Investment Framework grants since 2009, leveraging investments estimated at EUR 2.8 billion (EC, 2018[19]).

SMEs in the national economy

In accordance with the division of administrative competencies, the legal definition of SMEs is decided at the entity level in BiH. Each entity has two definitions of SMEs: one in the Law on Accounting and Auditing for accounting purposes, and another in the Law on Fostering Small Business Development in the FBiH (Table 14.3) and Law on SME Development in the RS Table 14.4) for the purposes of providing financial support to SMEs. In addition, the Brčko District has its own SME definition in the Law on Enterprises (Table 14.5).

The definition for accounting purposes is the same in both entities and distinguishes between small, medium-sized and large companies. The Law on Accounting and Auditing provides clear criteria for micro enterprises in the RS, whereas the FBiH does not define them separately. Since the last assessment, the RS has reduced the turnover and balance sheet thresholds in its second SME definition so as to harmonise them with the first, which has made the two entities' definitions more comparable and coherent according to both laws.

For the purposes of financial reporting, the two entities' accounting and auditing laws use financial thresholds to categorise SMEs that differ from those in the EU definition, although the employment criteria are the same. These definitions are adapted to the specific context of the economy of each entity.

Table 14.3. Definition of micro, small and medium-sized enterprises in the Federation of Bosnia and Herzegovina

	EU definition	Law on Accounting and Auditing	Law on Fostering Small Business Development
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	No definition in place	< 10 employees ≤ BAM 400.000 (~EUR 204 000 turnover and/or balance sheet
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees < BAM 1 million (~EUR 0.51 million) circulating assets < BAM 2 million (~EUR 1.02 million) turnover	< 50 employees ≤ BAM 4 million (~EUR 2.04 million) turnover and/or balance sheet
Medium-sized	< 250 employees ≤ EUR 50 million turnover ≤ EUR 43 million balance sheet	< 250 employees < BAM 4 million (~EUR 2.04 million) circulating assets < BAM 8 million (~EUR 4.08 million) turnover	< 250 employees ≤ BAM 40 million (~EUR 20.41 million) turnover and/or ≤ BAM 30 million (~EUR 15.30 million) balance sheet

Note: BAM: Bosnia and Herzegovina convertible mark; exchange rate as of December 2018.
Sources: FBiH (2009[20]), *Zakon o računovodstvu i reviziji u Federaciji Bosne i Hercegovine (Law on accounting and auditing)*, https://advokat-prnjavorac.com/zakoni/Zakon_o_racunovodstvu_i_reviziji_FBiH.pdf; FBiH (2006[21]), *Zakon o poticanju malog gospodarstva (Law on fostering small business development)*, www.fmrpo.gov.ba/dokumenti/zakoni/.

Table 14.4. Definition of micro, small and medium-sized enterprises in the Republika Srpska

	EU definition	Law on Accounting and Auditing	Law on SME Development
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	< 5 employees < BAM 250 000 (~EUR 128 000) balance sheet <BAM 500 000 (~EUR 255 000) turnover	< 10 employees
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees < BAM 1 million (~EUR 0.51million) balance sheet < BAM 2 million (~EUR 1.02 million) turnover	< 50 employees < BAM 1 million (~EUR 0.51 million) balance sheet ≤ BAM 2 million (~EUR 1.02 million) turnover
Medium-sized	< 250 employees ≤ EUR 50 million turnover ≤ EUR 43 million balance sheet	< 250 employees < BAM 4 million (~EUR 2.04 million) balance sheet < BAM 8 million (~EUR 4.08 million) turnover	< 250 employees ≤ BAM 4 million (~ EUR 2.04 million) balance sheet ≤ BAM 8 million (~ EUR 4.08 million) turnover and/or

Note: BAM: Bosnia and Herzegovina convertible mark; exchange rate as of December 2018.
Sources: RS (2013[22]), *Zakon o razvoju malih i srednjih preduzeća (Law on SME development)*, https://advokat-prnjavorac.com/zakoni/Zakon_o_razvoju_malih_i_srednjih_preduzeca_RS.pdf; RS (2015[23]), *Zakon o računovodstvu i reviziji Republike Srpske (Law on accounting and auditing)*, https://advokat-prnjavorac.com/zakoni/Zakon-o-racunovodstvu-i-reviziji-Republike-Srpske.pdf.

Table 14.5. Definition of micro, small and medium-sized enterprises in the Brčko District

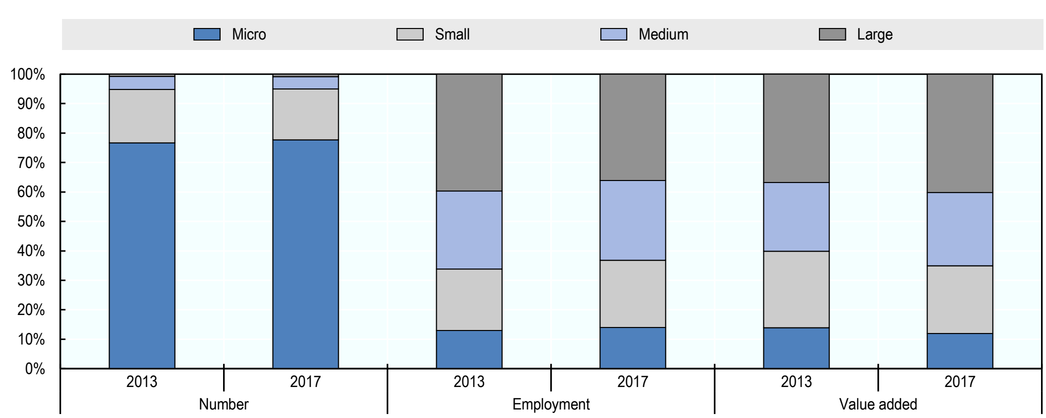
	EU definition	Law on Enterprises
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	No definition in place
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees < BAM 2.8 million (~EUR 1.43 million) turnover < BAM 1.4 million (~EUR 0.71 million) circulating assets
Medium-sized	< 250 employees ≤ EUR 50 million turnover ≤ EUR 43 million balance sheet	< 250 employees < BAM 4 million (~EUR 2.04 million) turnover ≤ BAM 8 million (~EUR 4.08 million) circulating assets

Note: BAM: Bosnia and Herzegovina convertible mark; exchange rate as of December 2018.
Sources: Brčko District (2011[24]), *Zakon o preduzećima Brčko distrikta BiH: prečišćen tekst (Law on enterprises Brčko District of BiH (consolidated text)*, www.secbdbih.org/files/legislativa/zakoni/ba/64_sjednica_zakon_o_preduzecima_bd_bih_preciscen.pdf.

Like its regional peers, Bosnia and Herzegovina's economy is dominated by SMEs. In 2017 there were around 30 000 SMEs (99.1% of all businesses) operating in BiH, with a large majority (77.7%) being micro enterprises. Small and medium-sized firms constituted slightly more than 20% of all SMEs. As Figure 14.2 shows, SMEs create much more employment than large enterprises. Even though their contribution to overall business sector employment has fallen by 4.4% since the last assessment, they still provided around 64% of jobs in the business sector 2017. At the same time, on average, SMEs contributed 60% to the annual value added in the business sector, which is around the regional average.

The share of businesses owned by women in Bosnia and Herzegovina is not known, as the statistical agencies in Bosnia and Herzegovina do not collect data on this indicator as part of their structural business statistics.

Figure 14.2. Business demography indicators in Bosnia and Herzegovina (2013 and 2017)

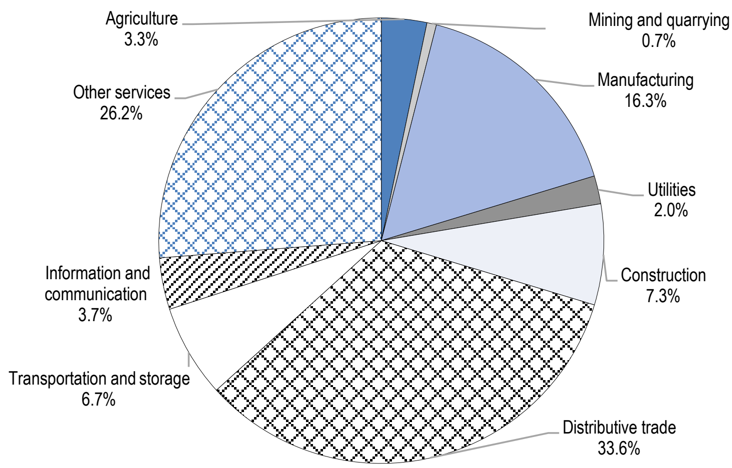


Note: Data do not include unincorporated enterprises. Due to the unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska.
Source: Statistical offices of FBiH and the RS.

StatLink http://dx.doi.org/10.1787/888933937850

When it comes to the sectoral distribution of SMEs in Bosnia and Herzegovina, distributive trade was the largest sector for SMEs, accounting for one-third of active SMEs in 2017 (Figure 14.3). It was followed by the manufacturing sector, which accounted for 16.3% of SMEs (down from 19% in 2016). Transportation and storage accounted for 6.7%, similar to construction (7.3%).

Figure 14.3. Sectoral distribution of SMEs in Bosnia and Herzegovina (2017)



Note: Due to the unavailability of 2017 state-level data, figures for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: “Utilities” represents the sum of “Electricity, gas, steam and air conditioning supply” (D) and “Water supply, sewerage, waste management and remediation activities” (E); “Distributive Trade” covers “Wholesale and retail trade; repair of motor vehicles and motorcycles” (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Source: Statistical offices of FBiH and the RS.

In 2017 more than 70% of SMEs were located in the FBiH, with around 30% in the RS (Table 14.6). In the FBiH, SMEs were primarily concentrated in and around the main commercial hubs, and in particular around Sarajevo (23% in 2017).

Table 14.6. Number of registered companies in Bosnia and Herzegovina, by enterprise size and entity and FBiH canton (2017)

Entities	Cantons (FBiH)	Enterprise size, by employment				Total	Share of total number of enterprises
		0-9	10-49	50-249	250+		
Federation of Bosnia and Herzegovina[1]	Bosnian Podrinje	112	58	14	3	187	0.57%
	Herzegovina-Neretva	1 686	675	174	24	2 559	7.86%
	Canton 10	457	164	27	2	650	2.00%
	Posavina	233	111	25	3	372	1.14%
	Canton Sarajevo	5 078	1 884	487	98	7 547	23.18%
	Central Bosnia	1 137	496	155	30	1 818	5.58%
	Tuzla Canton	2 425	1 042	312	36	3 815	11.72%
	Una-Sena	1 299	535	118	8	1 960	6.02%
	West Herzegovina	763	365	97	23	1 248	3.83%
	Zenica-Doboj	1 642	833	243	39	2 757	8.47%
	Total FBiH	14 832	6 163	1 652	266	22 913	70.4%
Republika Srpska[2]		7 434	1 711	400	100	9 645	29.6%
Bosnia and Herzegovina		22 226	7874	2 052	366	32 558	100%

Note: Data for the FBiH are collected from the Federal Information Agency and slightly differ from those obtained from the Statistical office of FBiH, reported in the main text.
Sources: [1] Federal Information Agency; [2] SBA assessment government questionnaire.

Assessment and recommendations

Process

The Small Business Act (SBA) assessment cycle was launched in Bosnia and Herzegovina with a kick-off meeting in Sarajevo on 8 November 2017. The meeting was organised in co-operation with the Ministry of Foreign Trade and Economic Relations, which acts as the SBA Co-ordinator, nominated by the European Commission, and which is responsible for implementing the SBA principles.[4]

During the meeting, the new assessment framework (see Policy Framework and Assessment Process chapter for details) was presented to the line ministries and public institutions at all government levels, and contribution to the information collection process was requested. The two documents making up the assessment framework – the questionnaire and statistical data sheet – were explained in depth to the participants, directing particular attention to the newly added questions and indicators.

Following the launch event, the Ministry of Foreign Trade and Economic Relations distributed the questionnaire to the appropriate counterparts in the ministries and government agencies at the state level, and sent the statistical sheet to the National Statistical Office of BiH. In parallel, the questionnaire and the statistical sheet were also shared with the entity representatives: in the FBiH, the Ministry of Development, Entrepreneurship and Craft; and in the RS the Ministry of Industry, Energy and Mining. These representatives distributed it to their counterparts in the relevant ministries and agencies. From November 2017 to February 2018, the necessary data and documentation were compiled, subsequent to which the questionnaire was completed. In so doing, a score for each policy dimension was assigned, accompanied by a justification. The completed questionnaires and statistical data sheets were sent to the OECD team on 5 February 2018.

The review of the inputs by the OECD and the partner institutions revealed the need for additional information on certain elements. This was requested from the state Ministry of Foreign Trade and Economic Relations; the Ministry of Development, Entrepreneurship and Craft of the FBiH; and the Ministry of Industry, Energy and Mining of the RS. The updated questionnaire was revised, and sent back to the OECD on 29 March 2018.

Meanwhile, an independent assessment was also conducted by the OECD and its partner organisations. This was based on inputs from a team of local independent experts in Bosnia and Herzegovina who collected data and information, and conducted interviews with key public and civil society stakeholders, as well as with SME representatives.

Following the completion of the government self-assessment and independent assessment, two reconciliation meetings were organised by the OECD and the European Bank for Reconstruction and Development (EBRD) in Banja Luka and Sarajevo on 5 and 6 June 2018, respectively. The meetings aimed to close any remaining information gaps in the questionnaire, while also serving as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies, and what else can be done across different policy areas to improve SMEs' performance and competitiveness in Bosnia and Herzegovina. For the two policy dimensions whose assessment was led by the European Training Foundation (entrepreneurial learning and women's entrepreneurship, and enterprise skills), similar meetings took place in Sarajevo on 13 and 14 March 2018.

The reconciliation meeting allowed the assessment findings to be consolidated. The OECD and partner organisations decided on the final scores under each policy dimension presented in this report (more information on how the scores are calculated can be found in Annex A and Annex B). The preliminary findings and scores were subsequently presented to SBA Co-ordinators at a meeting in Paris on 12 July 2018. The draft SME Policy Index publications and the SBA Assessment profile of Bosnia and Herzegovina were made available to the government of BiH for their review and feedback during August-November 2018.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 14.7).

For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

Table 14.7. Description of score levels

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

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

With scores of 3.23 for entrepreneurial learning and 3.26 for women's entrepreneurship, BiH has improved on both sub-dimensions since the 2016 assessment (Figure 14.1), and is placed around the regional average for this policy dimension (Table 14.8). There have been some good policy developments, particularly on entrepreneurial learning, but the challenge now is translating policy into concrete actions. This will require all schools to be supported, and teachers prepared, to deliver on the entrepreneurial learning agenda. Policy on women's entrepreneurship has also improved since 2016, but more co-ordination involving all the competent authorities, as well as exchange of good practice and know-how, would help the wider women's entrepreneurship ecosystem. The inclusion of women's entrepreneurship within the wider economic policy landscape remains weak.

Table 14.8. Scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	BiH	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	4.13	3.73
		Implementation	2.65	3.61
		Monitoring and evaluation	3.33	2.57
		Weighted average	**3.23**	**3.43**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	3.67	3.57
		Implementation	3.29	3.16
		Monitoring and evaluation	2.60	2.37
		Weighted average	**3.26**	**3.12**
BiH's overall score for Dimension 1			**3.24**	**3.31**

State of play and key developments

Entrepreneurial learning

Since the 2016 SBA assessment there has been renewed momentum on entrepreneurial learning, particularly around plans to co-work the entrepreneurship key competence with digital competence developments. This represents an important policy step for BiH and was a direct response to feedback from the European Commission on the country's 2018-20 Economic Reform Programme (ERP), including the most recent EU policy recommendations (Council of the European Union, 2018[25]) and support tools for both competences (Bacigalupo et al., 2016[26]; Carretero, Vuorikari and Punie, 2018[27]). This renewed interest reinforces BiH's commitment to develop the entrepreneurship key competence laid out in the BiH Strategic Framework (BiH Council of Ministers Directorate for Economic Planning, 2015[28]) and the 2017-19 ERP (BiH, 2017[29]). While policy interest in these two competences has been particularly prompted by EU policy developments, further progress will require a more concerted domestic commitment, and stronger mechanisms for policy co-operation and co-ordination among the education systems.

The 2016 SBA assessment highlighted that an important achievement was the creation of a common core curriculum which included the entrepreneurship key competence. In 2017, a state-wide dialogue involving policy makers and pedagogic institutes was initiated to consider how to implement a system-based response to a revised EU key competence policy, including the 2016 European Entrepreneurship Competence Framework. BiH now needs a framework implementation plan. This should include the structures and capacity required for monitoring and evaluation, and should also set out the role of schools, pedagogic institutes, education agencies and ministries in that process. The implementation plan's activities should build on the expertise, experience and materials developed through pilot actions acquired through an earlier EU-supported programme, including initiatives developed independently of international aid. One example of good practice is the small grants facility of the Federal Ministry of Education and Science which supports entrepreneurship – this acts as an incentive to schools to self-develop and innovate. Further developments on pedagogic approaches for entrepreneurial learning should prioritise "learning by doing" (EC, 2013[30]).

Teacher training remains an important priority, but there has been little development in this area since the 2016 assessment. A state-wide entrepreneurship key competence implementation plan should encompass universities which provide pre-service teacher training programmes, and build on the existing capacity of the pedagogic institutes.

Entrepreneurship promotion in higher education has received little strategic attention since the last SBA assessment, and there has been little policy interest in how the higher education community addresses the entrepreneurship key competence. However, the efforts of Tuzla University to provide entrepreneurship courses outside the economics faculty is good practice. With business centres at the universities of Banja Luka, Mostar and Sarajevo providing support to students in building business plans and start-up activities, BiH should examine the opportunities to connect these activities and expertise within universities for developing smart specialisation.[5]

Women's entrepreneurship

Since the 2016 assessment, an informal working group supported by Gesellschaft für Internationale Zusammenarbeit (GIZ) and chaired by the Ministry of Foreign Trade and Economic Relations ensures dialogue and co-ordination on women's entrepreneurship developments among policy makers from all entities, including business and civic interest groups. As it is donor-supported, the sustainability of this group and its advisory potential needs to be assured, however. In the meantime, consideration should be given to developing a more comprehensive policy position on women's entrepreneurship, beyond the sole focus on entrepreneurship support for women in rural areas as laid out in the BiH Strategic Framework (BiH Council of Ministers Directorate for Economic Planning, 2015[28]).

At entity level, the Council for Women's Entrepreneurship in the Republika Srpska demonstrates the leadership role of the Chamber of Commerce in prioritising women's entrepreneurship through policy engagement, training and international networking. The council provides important institutional support for women's entrepreneurship as part of the government's SME strategy, and oversees the implementation of a dedicated women's entrepreneurship development programme. The RS Government has also adopted a Women's Entrepreneurship Development Strategy for the period 2018-22.

In the FBiH, a women's entrepreneurship strategy development working group led by the Federal Ministry for Development, Entrepreneurship and Crafts (FMRPO) provides the basis for a more established advisory body on women's entrepreneurship. Grants to support women-owned businesses at cantonal level (e.g. in Sarajevo, Tuzla) are good practice. Meanwhile, the drafting of a women's entrepreneurship action plan by the Brčko District is an opportunity to raise the profile of women's entrepreneurship policy and activities. All entities, including the informal working group led by the Ministry of Foreign Trade and Economic Relations, need to pay more attention to monitoring and evaluating women's entrepreneurship activities.

In line with previous SBA assessments, non-government organisations (NGOs) continue to play an important role in supporting women's entrepreneurship. The BiH Association of Women Entrepreneurs and the Women's Entrepreneurship Council in the RS (through a dedicated portal) provide information on financial support, training, good practice and networking opportunities. MI BOSPO – a micro-credit foundation – is an important player in supporting women's access to finance.

The way forward for Dimension 1

Policy interest in all the entities in promoting a more entrepreneurial culture through education and training is an important factor in BiH developments. Plans to update a state-wide strategy on entrepreneurial learning, including a more strategic approach to developing the entrepreneurship key competence, align well with wider policy at EU level. The challenge is to ensure that this policy interest is translated into an action plan and that this is implemented.

For women's entrepreneurship, while there are good policy efforts and a support framework primarily focused on "necessity" entrepreneurship (defined primarily in terms of social inclusion), more policy attention is needed on "opportunity" entrepreneurship (defined in terms of competitiveness) – in particular, how policy and support measures can boost the growth and innovation potential of women's businesses.

Moving forward, the following actions should be considered

- **Update the entrepreneurial learning strategy.** In line with constitutional competences, the strategy on entrepreneurial learning should be updated and accompanied by a framework implementation plan drawing on the European Entrepreneurship Competence Framework (EntreComp) and including capacity building of ministries and pedagogic institutes in system-based monitoring and evaluation. School-business co-operation should be given a higher priority. The strategy should also include development of financial literacy – which is as a key component of EntreComp – and link with the wider financial literacy strategy recommended below (see Dimension 6). The implications of entrepreneurial learning for careers guidance and counselling should also be considered. Current discussions to co-work entrepreneurship competence development with digital competences should be followed up with a concrete plan and then implemented.
- **Embed women's entrepreneurship within economic reform plans**. Women's business development, including training, strategic networking and financial support, should be integrated within the wider economic reform plans at all levels. This will require more systematic gender-specific data on SME support and monitoring.

Bankruptcy and second chance for SMEs (Dimension 2)

Bosnia and Herzegovina has improved its performance in this dimension, from a score of 2.25 in 2016 (Figure 14.1) to 2.55 in this assessment (Table 14.9).

Table 14.9. Scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	BiH	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**1.14**	**2.39**
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.25	3.71
		Performance, monitoring and evaluation	2.45	2.46
		Weighted average	**2.93**	**3.21**
	Sub-dimension 2.3: Promoting second chance		**1.94**	**1.93**
BiH's overall score for Dimension 2			**2.55**	**2.87**

State of play and key developments

Preventive measures and bankruptcy procedures

The legislative framework for bankruptcy proceedings in Bosnia and Herzegovina is regulated at the entity level. The Federation of Bosnia and Herzegovina, the Republika Srpska and the Brčko District each have their own legal frameworks regulating bankruptcies. Nevertheless, the entities are making efforts to harmonise their legislation on bankruptcy proceedings.

In the FBiH, bankruptcy proceedings are governed by the Law on Bankruptcy Proceedings[6] last amended in 2006 and 2017, and the Law on Liquidation Proceedings,[7] enacted in 2003. In 2016, the Constitutional Court of the FBiH froze all bankruptcy proceedings as two articles (33 and 40[8] of the Law on Bankruptcy Proceedings) were considered unconstitutional. Consequently, a new amendment in line with the RS's bankruptcy law was presented to the FBiH Parliament in 2017, and adopted in 2018.[9]

In the RS, a new Law on Bankruptcy[10] was adopted in 2016. The law is compatible with the European Commission recommendation of March 2014 on a new approach to business failure and insolvency (EC, 2014[31]). The new law sets out objectives such as the timely initiation of bankruptcy proceedings, and the financial and operational restructuring of the debtor. Accordingly, it allows a non-liquid company to enter into a settlement with creditors and if there are delays in the process sanctions can be introduced against bankruptcy trustees.

In the Brčko District, the Law on Bankruptcy, Compulsory Settlement and Liquidation[11] enacted in 2002 governs bankruptcy proceedings. The law sets out the conditions for the implementation of bankruptcy proceedings, compulsory settlement and liquidation against the debtor.

According to their laws on bankruptcy proceedings, the key players in insolvency proceedings in the FBiH and the RS are the insolvency courts, the insolvency judges, the bankruptcy trustees and the creditors (acting through an assembly of creditors and the creditors' committee).

In both entities, bankruptcy proceedings may be initiated by the bankruptcy debtor or any creditor under the conditions provided by the law. Debtors are considered insolvent if they cannot settle their financial obligations within 60 days. In the FBiH, the petition must be filed within 30 days, while in the RS it is 60 days.

In the FBiH, the law does not provide for the possibility of a pre-bankruptcy settlement before filing for bankruptcy. By contrast, the new law adopted in the RS offers the possibility of a pre-bankruptcy settlement before filing for bankruptcy. In 2017 in the RS a total of 11 restructuring cases were initiated, and 4 firms have already completed restructuring, saving 600 jobs (IFC, 2018[32]). In both entities, if a debt restructuring settlement cannot be agreed between debtor and creditors, the process ends in liquidation.

The legislation covers all aspects of secured transactions in Bosnia and Herzegovina, including the ability of secured creditors to satisfy their secured claim as well as their right to be paid first out of the proceeds from the sale of the assets in which they have collateral. The creditors of a lower payment rank only have their claims paid following the full payment of the superior rank. Creditors from the same rank have their claims paid *pro rata*.

According to the new law in the RS, bankruptcy procedures should be resolved within one year, and in extreme cases two years. The legal frameworks of the FBiH and the Brčko District do not stipulate any time limit for resolving insolvency. On average, in 2018 it took 3.3 years to resolve an insolvency case in Bosnia and Herzegovina, the second longest in the WBT region after Turkey (World Bank, 2018[14]).

In 2018, insolvency procedures cost 9% of the debtor's estate. The average recovery rate for creditors has increased from 37.3 cents in 2016 to 38.9 cents on each dollar owed in 2018, but it is still far below the OECD average of 69.83 cents.

The Central Registry of Credits, which operates under the co-ordination of the Central Bank of Bosnia and Herzegovina, collects data on all debts related to legal entities and natural persons which have been recorded by commercial banks, microcredit institutions, saving-credit institutions and leasing companies. The information on the registry is only accessible upon the written approval of the businesses so there are no mechanisms for using these data to identify potentially distressed or distressed companies.

Data on bankruptcies are only collected in the Republika Srpska (Table 14.10).

Table 14.10. Number of bankrupt enterprises per year in the Republika Srpska (2013-16)

	2013	2014	2015	2016
Number of bankrupt enterprises	113	103	128	115

Source: Government of the Republika Srpska (2017).

Promoting second chance

Bosnia and Herzegovina has no special measures that discriminate against entrepreneurs who have failed to restart their business. In the Republika Srpska natural or legal persons cannot establish a company or participate in the share of another company until they have settled their debts (e.g. social security contributions) in the register of fines, a measure primarily aimed at protecting workers' rights. There are no initiatives to promote second chance among entrepreneurs in the FBiH or the Brčko District. However, in the RS Strategy for the Development of SMEs 2016-2020, the second strategic objective for the business environment is “faster implementation of bankruptcy proceedings and providing a second chance for entrepreneurs”. The action plan states that seminars will be organised during 2016-20 to promote “second chance” among entrepreneurs, though there are no additional details and at the time of writing, no activities had been carried out in that area. Danube Chance 2.0, launched in October 2018 in the RS under the co-ordination of the Republic Agency for the Development of Small and Medium-Sized Enterprises (RARS), aims to develop second chance policies for entrepreneurs, as well as practical solutions to improve entrepreneurial learning and culture to avoid the loss of entrepreneurial potential and overcome the stigmatisation of entrepreneurs who have gone bankrupt (Center for Social Innovation, 2018[33]).[12]

The way forward for Dimension 2

Bosnia and Herzegovina can further improve its legal framework for bankruptcy and second chance policies in the following ways:

- **Continue to harmonise the insolvency legal framework with the European Commission recommendation.** Formulating the legal framework which delimits the market entrance and exit rules for businesses is a core government role. First, it is crucial to adapt the legislative framework to the natural evolution of the business environment, as has occurred in Slovenia (Box 14.2) and second adopting similar rules among different entities will reduce the administrative burden for distressed companies. Therefore, the Federation of Bosnia and Herzegovina needs to adapt its legal framework to the needs of the economy.
- **Enhance and adapt the administrative capacities** of the bodies implementing the new insolvency practices in the framework: bankruptcy administrators, bankruptcy judges, appraisers and creditors’ associations. The economy should consider offering training and limited-duration licensing for implementation bodies to ensure better quality services. Constant monitoring and auditing of their work should mean they meet higher professional standards and ensure they maintain high-quality services.
- **Create a monitoring and evaluation process for bankruptcy mechanisms.** Proper monitoring and evaluation leads to evidence-based policy making, and consequently can enhance the policy expectations of businesses.
- **Develop a fully fledged early warning system**: SME owners have a tendency to underestimate their financial difficulties and to resist taking action to alleviate their hardships. Therefore, Bosnia and Herzegovina should consider introducing a system which would convince entrepreneurs to initiate recovery measures without delay. Such a system could take different forms, but should entail certain essential features. First, special detection procedures should be devised that would screen and monitor early signs of SMEs in financial difficulties. Second, those SMEs identified need to be approached and provided with advice on objectively assessing their financial situation, as well as on the different options available to them concerning recovery. Once they are better informed, SMEs would be able to take the required steps at an earlier stage, thereby increasing their chance of survival. Early warning mechanisms established by EU member states can offer a blueprint for Bosnia and Herzegovina (Box 14.3).

Box 14.2. Slovenia: A post-crisis insolvency regime

Having joined the EU in 2004, Slovenia adopted a new insolvency law in 2007. However, this coincided with the financial crisis and the newly introduced regulations were not enough to deal with the high number of non-performing loans and failed entrepreneurs. The previous regulations were found to be one of the main causes of creditors' low recovery rates (EBRD, 2014[34]). To improve the situation, the Slovenian government amended the insolvency law in 2013. The main changes included:

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

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

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

These changes also brought the Slovenian insolvency regime in line with best international practice, with the economy joining the trend of facilitating debt/equity swaps in order to conduct debt restructuring (IMF, 2015[35]).

Sources: EBRD (2014[34]), *Commercial Laws of Slovenia: An Assessment by the EBRD*, www.ebrd.com/documents/legal-reform/slovenia-country-law-assessment.pdf; IMF (2015[35]), "Republic of Slovenia: Selected issues", www.imf.org/external/pubs/ft/scr/2015/cr1542.pdf;https://www.imf.org/external/pubs/ft/scr/2015/cr1542.pdf World Bank (2017[36]), *Doing Business 2018: Reforming to Create Jobs*, www.doingbusiness.org/en/reports/global-reports/doing-business-2018.

Box 14.3. Early Warning Europe

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

The consortium is comprised of 15 partners in 7 countries including mentor partners Early Warning Denmark, TEAM U in Germany, Dyzo in Belgium, authority partners such as the Danish Business Authority, the regional government of Madrid and the Polish Agency for Enterprise Development, as well as EU-level associations such as the, European Small

Business Alliance, Eurochambres and SME United. The Early Warning Europe project is financed by COSME and aims to provide assistance to businesses and entrepreneurs in trouble, as well as those who wish to better anticipate problems. The project builds new best practice and draws on existing experience from these 15 organisations. Currently, five new EU Member States are in the process of joining the EWE community, and several others have expressed their interest. EWE is open to all COSME countries, and the expansion in phases gives access to the early warning mechanisms foreseen in the upcoming EU Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures.

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

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

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

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

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

Source: Early Warning Europe (2018[37]), *Early Warning Europe website*, www.earlywarningeurope.eu/.

Institutional and regulatory framework for SME policy making (Dimension 3)

With a score of 2.62, Bosnia and Herzegovina is the lowest performer in this dimension in the WBT. However, its score has improved since 2016 (when it was 2.22, see Figure 14.1). This is mainly due to some progress at the state level on regulatory impact analysis (RIA) and public-private consultations (PPCs), as well as some developments at the entity level, principally in the Republika Srpska, in each of the three sub-dimensions (Table 14.11).

Table 14.11. Scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	BiH	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	2.79	4.06
		Implementation	3.09	4.06
		Monitoring and evaluation	2.94	3.92
		Weighted average	**2.97**	**4.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	2.24	4.00
		Implementation	2.10	3.25
		Monitoring and evaluation	1.71	3.23
		Weighted average	**2.06**	**3.47**
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	2.84	3.86
		Private sector involvement in PPCs	3.09	4.26
		Monitoring and evaluation	1.67	2.73
		Weighted average	**2.71**	**3.79**
BiH's overall score for Dimension 3			**2.62**	**3.79**

State of play and key developments

Institutional framework

Bosnia and Herzegovina's institutional framework for SME policies is still underdeveloped at the state level. In fact, SME policies only exist at the entity level. As noted in the previous assessment, there is still a lack of vertical co-ordination and linkages to help align SME policy objectives across the entities, and policy co-ordination remains weak.

In the RS, the key SME policy document is the Strategy for the Development of SMEs 2016-2020 (the SME strategy). The strategy was adopted in September 2016 and contains clear and measurable targets and measures, complemented by a detailed action plan. As in the previous cycle, the Department for SMEs in the Ministry of Industry, Energy and Mining is responsible for policy development and co-ordination, while the implementation of the SME strategy is carried out in partnership with RARS. The SME strategy has not always been implemented consistently, since an over-reliance on donor funds causes occasional delays and impedes the full realisation of the planned activities.

The FBiH has neither an SME strategy nor a public agency to co-ordinate SME policy implementation or SME-related activities. As in the previous assessment, it has only one strategic document for fostering entrepreneurship – the Development of Small and Medium-sized Enterprises in the FBiH 2009-2018 and its related action plan for 2016-18. This regulates the SME environment indirectly. The institution indirectly in charge of SME-related issues is the Federal Ministry for Development, Entrepreneurship and Crafts (FMRPO). The Economic Reform Programme of Bosnia and Herzegovina 2017-19 envisages establishing an SME development agency in the FBiH in 2018 (BiH, 2018[10]). However, this has not yet happened.

None of the entity-level strategic documents include measures to combat the informal economy – nor are there any concrete plans and actions at the state level. In the RS, the informal economy is being indirectly addressed through the reform of the fiscal system, which is reducing administrative and parafiscal burdens on businesses through the new Law on Tax System and amendments to the Law on Income Tax, adopted in 2017 and 2018 respectively.

As in the previous assessment, SME-related strategic documents are regularly monitored at the entity level. In addition to this, the work of RARS in the RS is also regularly tracked and annual reports are produced. This assessment found some new initiatives to evaluate SME policies in the RS. For example, in September 2016 the Council for SME Development and Entrepreneurship was established as the government advisory body mandated to monitor and evaluate SME policies and their impact on the ground.

Legislative simplification and regulatory impact analysis

Legislative simplification is being undertaken at the entity level and their implementation record is successful, especially in the RS where a regulatory guillotine has been continuously in use. Since its launch in 2009, it has eliminated 25% of unnecessary formal procedures for businesses and 60% of redundant inspection procedures. In the FBiH over the same period, the application of a regulatory guillotine has led to the simplification of business permits (65% of the total number identified for simplification) and to significant savings for the private sector. In 2016, the FBiH adopted a new law on enterprises which aimed to simplify the procedures for starting a business (for more information see Section Operational environment for SMEs (Dimension 4)). However, since the last assessment, the intensity of the reviews and simplification efforts has decreased in BiH.

In July 2017, the Unified Rules for Legal Drafting were amended to formally introduce RIA into the policy development process at the state level. The SME test is not embedded into the RIA, however. According to the Unified Rules many institutions are responsible for providing opinions on RIA according to their area of expertise, co-ordinated by the General Secretariat of the Council of Ministers of BiH. For instance, the Ministry of Finance and Treasury is in charge of providing opinions on the fiscal impact identified by the institution proposing a new law, and the Ministry of Foreign Trade and Economic Relations is supposed to provide opinions on the economic and environmental impact identified. Despite these developments, RIA is not yet implemented at the state level.

Requirements to conduct RIA have been rooted in the policy-making systems of both the FBiH (since 2014) and the RS (since 2015). Both entities provide clear and comprehensive RIA guidelines, which include examples of RIA files, and are available on line (OECD, 2017[38]). The General Secretariat (GS) of the government is the institution responsible for RIA in the FBiH and the Ministry of Economic Relations and Regional Co-operation (MERRC) in the RS. The annual reports produced by GS and MERRC show that the quality of the RIA process is not satisfactory. In particular, only

27% of draft laws in the FBiH were actually supported by RIA or another type of analysis. The main challenges in the FBiH are a lack of planning of the RIA process, the limited involvement of the GS in the RIA development process and the absence of proper enforcement mechanisms that would enable the GS to return low-quality RIA reports to the drafting ministry (OECD, 2017[38]). The latter is also an issue in the RS, where the MERRC also has no formal right to return RIAs of low quality to the originating ministry. On a positive note, the RS administration did produce RIAs for all regulations stipulated by law. However, these were mostly "short RIAs", which offered only limited policy analysis (OECD, 2017[38]).

Public-private consultations

As in the previous assessment, all three levels of government in BiH have legal and regulatory frameworks in place that define the general principles and procedures for the conduct of public-private consultations (PPCs). In 2017, the state and the Brčko District amended and adopted their respective rules concerning PPCs (OECD, 2017[38]). In practice, PPCs are assessed as being poor and inconsistent (with some signs of improvement in the RS). The evidence shows that the majority of laws in BiH are adopted through an urgent procedure, without consulting interested parties. In 2016, 58% of legislation was adopted in this manner (OECD, 2017[38]).

Since the last assessment, BiH has continued its efforts to improve the transparency of its public-private consultations. In particular, in 2016 the state level introduced a centralised e-consultation portal[13] listing all the PPCs that concern institutions at the state level. The number of institutions using the e-consultation portal increased from 25 in 2016 to 37 in 2017 and 39 in 2018 (Council of Ministers, 2018[39]). The efficiency and effectiveness of the portal, however, are not regularly monitored or evaluated.

As was found in the previous SBA assessment, SMEs are only partially involved in PPCs at all government levels. With the exception of the RS, participation is only possible in most cases by invitation. The private sector is mostly represented through business associations.

Monitoring of PPCs is carried out regularly at the state level and in the RS. At the state level, the Ministry of Justice is entrusted with monitoring PPCs, and issues a report every two years on the implementation of the Rules of Consultations in legislative drafting. Its 2017 report highlighted that the quality of online PPCs at the state level needed to be improved, since the e-portal was not consistently used by the relevant institutions. It also noted that the public were not providing sufficient comments on the available legislative drafts (Ministry of Justice, 2018[40]). In 2017, 13 out of 23 online legislative proposals received no feedback (Ministry of Justice, 2018[40]). Therefore, it seems that the public are either not aware of the e-portal or are uninterested in taking part in consultations.

Overall, there are no quality checks on the process, as there is no central unit responsible for examining whether PPCs are conducted on time and if the feedback and concerns of SMEs have been taken into consideration.

The way forward for Dimension 3

Despite making some progress in this dimension, Bosnia and Herzegovina needs to further improve its institutional and regulatory framework. Some of the most pressing actions to take are:

- **Establish effective co-ordination of SME policy across the different levels of government**. The state institutional framework for SME policies is still underdeveloped, with SME policies only existing at entity level (in the RS in particular) in accordance with the constitutional setting of BiH. It is essential to establish a state-wide institutional framework, i.e. an SME development strategy for BiH that would forge SME policy synergies across the various government levels and act as an appropriate basis for SME policy development in BiH. During this process, it will be important to establish vertical co-ordination and linkages to help align SME policy objectives between the entities.
- **Ensure full implementation of RIA, including aspects affecting SMEs.** The requirement for RIA was introduced at the state level in 2017, but it has not yet been implemented. There are several reasons for this: there are no clear RIA guidelines with concrete examples of RIA files, officials are not trained to conduct RIAs and there is an overall lack of awareness of the benefits of RIA as a regulatory policy tool. The government should therefore provide RIA training to government officials and distribute clear guidelines with concrete examples on how to conduct RIAs. The government could also use the Council of Ministers (CoM) to ensure the quality of RIAs by giving it a clear mandate to return RIA documents deemed to be below par to the responsible institution for revision before the proposal goes to the government. The same practice could be adopted at the entity level as well.
- **Enhance the quality of the PPC process and ensure SMEs can participate effectively**. BiH should consider introducing a central co-ordination unit within the Ministry of Justice or the CoM to supervise the use of the single government portal for consultations and act as a quality control mechanism for PPCs. It is also important to promote PPCs and (re)create trust in consultations through greater transparency by publishing reports on PPCs, highlighting which proposals were accepted and which were not, and why. SMEs could be encouraged to participate more in discussions on business-related legislation in BiH. The example of Montenegro's Business Caravan could be a model for the government (Box 14.4).

Box 14.4. Reaching out to SMEs to develop a more favourable business environment: Montenegro's Business Caravan

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

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

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

Sources: Data provided by the Government of Montenegro as part of the SBA Assessment; Vijesti (2017[41]), *Babić: Biznis karavan daje rezultate [Babic: Business Caravan Gives Results]*, www.vijesti.me/vijesti/babic-biznis-karavan-daje-rezultate-949619.

Operational environment for SMEs (Dimension 4)

Bosnia and Herzegovina have the lowest score in the region for this dimension (2.34), indicating that it has much room to improve the operational environment for SMEs (Table 14.12). However, some steps are now being taken to simplify the operational environment for SMEs; their impact will be more visible in the next assessment period.

Table 14.12. Scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	BiH	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for enterprises	Planning and design	2.25	4.07
		Implementation	1.97	3.47
		Monitoring and evaluation	1.00	2.05
		Weighted average	**1.81**	**3.29**
	Sub-dimension 4.2: Company registration	Design and implementation	3.90	4.48
		Performance	2.28	3.72
		Monitoring and evaluation	1.91	3.59
		Weighted average	**2.78**	**3.97**
	Sub-dimension 4.3: Business licensing	Licence procedures	3.70	3.67
		Monitoring and streamlining of licence system	3.32	3.18
		Weighted average	**3.51**	**3.43**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
BiH's overall score for Dimension 4			**2.34**	**3.45**

Note: A new sub-dimension 4.4 on tax compliance procedures for SMEs was added at the request of the assessed economies, to better reflect the complexity of the overall picture of the operational environment for SMEs, however, as it is a pilot analysis this sub-dimension has not been included in the scoring.

State of play and key developments

Digital government services for enterprises

The fragmentation of responsibilities among authorities at different levels has a direct impact on e-government services. It creates a dual barrier to the provision of e-services, with no centralised portal to provide them and no central co-ordination body to oversee the services offered across Bosnia and Herzegovina.

In addition, the Public Administration Strategy 2018-22 announced by the Council of Ministers has not yet been adopted, meaning the economy has not had a strategic public administration framework since the end of 2014. A similar situation applies to the legal framework. The Law on the Information Society Agency covering various aspects of digital government as part of the EU *acquis* has not been adopted either.

Despite some progress since 2016 in the digitalisation of basic services, such as online tax filing and e-cadastre registry, the level of implementation differs in both entities. This is mainly due to the different approaches adopted. While the FBiH relies exclusively on the laws adopted at the state level, the RS has its own laws and strategic frameworks.

Since the last assessment, the Law on Electronic Signature[14] and the Law on Electronic Document[15] have been adopted, but their implementation is still ongoing in the RS. The

Office for Supervision and Accreditation within the BiH Ministry of Communication and Transport only started to function as of January 2018. Accordingly, the e-IDs introduced to support the full use of electronic identification and e-signatures cannot be used due to different interpretations and implementation of the legal framework at different administrative levels, despite the creation of a national accreditation body. In order to create an accreditation authority, the RS is currently establishing the National Digital Identity Management Center of Republic of Srpska, expected to be operational in 2019.

Another positive concrete development is the electronic submission of tax forms through the Tax Administration, which has become possible in both entities since the previous assessment. In the FBiH online filing is limited to salaries and contributions, annual income tax and property tax. The RS has implemented the mandatory electronic filing of applications for tax refunds since January 2017 as part as one of the specific objectives of its Tax Administration Strategy 2016-18.

Electronic cadastre has been established at the entity level. The Federal Bureau for Geodetic and Property Legal Affairs manages the e-cadastre in the FBiH (www.katastar.ba/pocetna.aspx). In the RS, the e-cadastre is managed by the Department of Geodetic and Property Affairs (www.ezkrs.net). However, e-cadastres are only available for viewing data; SMEs and individuals have no way of obtaining official electronic documents from the real estate registry.

There is no substantial collaboration over data exchange among the public institutions of the different entities. However, a few institutions do have unified databases, such as the Taxation Office, Pension Fund, Healthcare Fund, Unemployment Office and Statistical Office. When it comes to interoperability, all entities have successfully implemented the project on Increasing the Capacity of the Inspection System in BiH, with the support of the World Bank. This platform will form the technical infrastructure of the interoperability structure and will enable the exchange of information among the RS, the FBiH, the Brčko and the institutions at the state level.

Bosnia and Herzegovina has been a member of the Open Government Partnership since 2014. However, it has not developed an action plan, despite members being required to do so. Moreover, there are no initiatives in either the RS or the FBiH to monitor and evaluate digital services.

Business registration and licensing

Each entity is responsible for its own business registration process. In the Republika Srpska, the entire procedure is conducted by the Agency for Intermediary, IT and Financial Services (APIF). It acts as a one-stop shop, with all the necessary registration and notification procedures handled through one place. The FBiH's one-stop shop is not yet operational but it is expected to be so by the end of 2019. It will cover all 54 municipalities, and aims to handle all processes through single location. In the Brčko District, business registration can only take place in the Brčko District Court of Bosnia and Herzegovina.

The registration process provides two company numbers: 1) the registration number, which is specific to the entity; and 2) the state-level value-added tax (VAT) number. However, a registration is not valid for the entire economy: a company registered in the FBiH, for example, cannot operate directly in the RS without obtaining additional permits, and vice versa.

Electronic company registration is being developed in the RS and should be up and running by the end of 2018. Currently, APIF's website (https://www.apif.net) and the RS Chamber of Commerce and Industry's website (http://komorars.ba/poslovno-okruzenje/normativni-okvir/privredno-sistemske-oblasti/privredna-drustva/) provide entrepreneurs with access to all the relevant information and links to registration forms and manuals, making it easier to start a company. In the FBiH, registration can only be achieved in person, because the law on registration[16] has not been amended to allow a legal basis for the establishment of online company registration.

Bosnia and Herzegovina remains the outlier among the WBT economies for the cost and length of time involved in starting a business, requiring 13 procedures and 81 days to start a business. The cost of starting a business has increased from 13.5% of income per capita in the 2016 assessment to 14.9% (World Bank, 2018[14]).

Obtaining licences and permits remains a complex and fragmented process for SMEs in Bosnia and Herzegovina. Licences are obtained at the entity level from a number of public institutions. Each institution at the entity level is responsible for providing licences and permits according to their competences. Business licences for SMEs are defined under the Law on Companies of the FBiH and the RS. However, for craftsmen, licences are processed at the municipality or city level.

Both entities provide publicly available written information on the procedure for obtaining business licences. However, according to the interviews with private sector representatives, applicants in the FBiH have to seek professional assistance to get detailed information or else have to check the law by themselves. In the RS, the situation is much better. Applicants can get information on all licences and permits from the newly established (2018) Registry of Authorizations/Approval (https://pscsrpska.vladars.net/sr), which is the single point of contact for businesses, co-ordinated by the MERRC of the RS.

In terms of streamlining licence systems, since 2014, SMEs in the RS have been able to apply for a licence or make changes to an existing company licence at a single office. However, no centralised procedures exist in the FBiH or at the state level and there is no central co-ordination body to oversee licences granted across the entire territory.

Tax compliance procedures for SMEs

Bosnia and Herzegovina offers a presumptive tax regime for micro businesses, administered at the state level for indirect taxes (VAT) and at the entity level for direct taxes. In accordance with the Law on Value-Added Tax,[17] enterprises with an annual turnover below BAM 50 000 (EUR 25 500) are not obliged to register in the VAT system in the entire territory.

Only businesses operating in the RS are able to benefit from lower income tax rates. In accordance with the Law on Income Tax in the RS,[18] unincorporated businesses[19] with an annual income of less than BAM 50 000 (around EUR 25 500) are granted an income tax rate of 2%, with a minimum payment of BAM 600 (around EUR 300), instead of the standard rate of 10%.

In the FBiH, some taxpayers are able to pay lump-sum income tax if they meet one of the following criteria: 1) sole proprietorship and performing artisanal activities; 2) traditional crafts established by the Decree on the Protection of Traditional and Old Crafts, and with a maximum of two employees; 3) transport activities (up to 8 tonnes); or 4) agricultural or forestry activities as a basic occupation, and not registered for VAT (see above). Neither the Brčko District nor the FBiH have any additional tax compliance procedures for SMEs.

The way forward for Dimension 4

Bosnia and Herzegovina needs to further improve its operational environment for SMEs framework. The following points list a number of areas, requiring further attention by the policy-makers:

- **Create a single portal and expand digital services, allowing SMEs to complete all processes on line.** This will help the government and SMEs to have a clear overview of all the available e-services, saving time and reducing both the cost and the number of required procedures for SMEs.
- **Harmonise and continue efforts to implement digital authentication or e-signatures in order to allow SMEs to complete services fully on line and across the entire territory.** E-signatures or digital authentication allow users to complete all processes on line which saves time as the current system means they need to be physically present to complete services.
- **Harmonise the business registration process and widen online registration opportunities for SMEs**. This will allow SMEs to perform their activities over a wider geographical scope, saving time and lightening the administrative burden by reducing the number of steps required.
- **Pursue efforts to streamline company registration and licensing under one-stop shops.** A one-stop shop increases transparency, speeds-up processes, helps to conduct effective monitoring and streamlining, and lowers administrative burdens and costs for SMEs. This central unit can also play the role of a central co-ordination body, enhancing interoperability. Estonia's X-Road (Box 14.5) is a good practice example on how to overcome possible challenges in the early implementation phase of a central co-ordinating system rollout.
- **Regularly monitor and evaluate tax simplification measures**. Compliance with the eligibility criteria of simplified tax schemes in the region does not always remove complexity, as intended. Excessive documentation requirements coupled with the limited availability of online options to complete the procedures may deter entrepreneurs and SMEs from making use of these schemes. WBT governments should therefore evaluate how to facilitate compliance for SMEs under the tax simplification schemes, while maintaining sufficient safeguards that prevent abuse and result in low tax compliance.

Box 14.5. X-Road: Estonia's system for interoperable government service delivery and data exchange

The introduction of X-Road in Estonia in 2001 transformed its public service delivery. The system links up various public and private sector information systems, making secure data exchanges possible among public and private institutions. X-tee (as X-road based solution is called in Estonia) became the official data exchange layer for the state information system and the backbone of e-Estonia. Information that is stored in a server can be shared with institutions that request it for their service provision.

X-Road connects relevant bodies including the tax and customs board, population and company registers, several commercial banks and many more. X-Road increases the transparency of the public service delivery, as data exchanged through X-Road are authenticated using Estonia's e-ID system and can be traced to their origin or even used as evidence in courts of law (Cybernetica, 2018[42]). It also offers better opportunities to monitor existing services and reduces the risks associated with data storage because no single server holds all the information. It is, instead, held across several servers.

The Estonian Government passed the Public Information Act in 2000, and the use of X Road was made mandatory in 2003. Today, X Road connects more than 600 institutions and enterprises, and approximately 52 000 organisations are indirect users of the more than 2 700 services that can be used via X-Road. Based on its usage figures, it is estimated that every year, X-Road saves more than 800 years of working time.

Many factors have made X-Road particularly successful. It was developed in the early 1990s in a post-Soviet Union context, so there was almost no legacy framework in place. At that time Estonia was one of the first countries to adopt an e-government strategy. Political will and citizens' desire to break with the Soviet era and establish a new government system created a unique opportunity. However, Estonia quickly realised that legislation had to be adjusted to ensure integrity. Estonia's Public Information Act prohibits the establishment of separate databases for the collection of the same data. In practice, it means that state institutions cannot repetitively ask for the same personal information if it is already stored in any of the data repositories connected to X-Road.

Source: (Vassil, 2015) X-Road (2018[43]), *Factsheet*, www.ria.ee/x-tee/fact/#eng..

Support services for SMEs (Dimension 5a)

Since the last assessment in 2016, Bosnia and Herzegovina has improved its performance in this policy dimension, with an increase of its overall score from 2.42 to 3.41 (Figure 14.1). The improvement in its overall score reflects improvements made in both sub-dimensions. However, BiH still falls short of reaching the WBT average score in both sub-dimensions.

Table 14.13. Scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	BiH	WBT average
Dimension 5a: Business support services for SMEs	Sub-dimension 5a.1: Business support services provided by the government	Planning and design	3.07	3.84
		Implementation	3.26	3.68
		Monitoring and evaluation	2.12	3.19
		Weighted average	**2.98**	**3.63**
	Sub-dimension 5a.2: Government initiatives to stimulate private business support services	Planning and design	4.43	4.67
		Implementation	3.64	3.85
		Monitoring and evaluation	3.50	4.07
		Weighted average	**3.85**	**4.14**
BiH's overall score for Dimension 5a:			**3.41**	**3.89**

State of play and key developments

In Bosnia and Herzegovina, business support systems (BSSs) are designed and implemented at the entity level. SMEs which want to benefit from a BSS programme provided by the relevant public institutions in one of the entities need to be registered in that entity. The FBiH and the RS both have strategy documents with accompanying action plans that include actions to improve BSS provision to SMEs. The Brčko District, however, does not possess a SME-specific strategy document and nor do its public institutions provide BSSs to SMEs, with the exception of co-financing support to SMEs for certification with an upper support limit of BAM 10 000 (around EUR 5 100) per SME per year.

In the Federation of Bosnia and Herzegovina, the 2016-18 action plan as part of the strategy document Development of Small and Medium Enterprises in the Federation of Bosnia and Herzegovina 2009-2018 includes measurable targets for the relevant actions. For example, it expects to improve the visibility of BSSs through promotional events and the media to inform more SMEs about available services. The action plan sets a target of a 10% increase in SMEs applying for BSSs delivered by the FMRPO by 2018. In the Republika Srpska, the action plan of the 2016-20 SME Strategy includes dedicated actions to improve BSS provision. However, although these actions are associated with monitoring indicators, they do not include measurable targets. For example, the action plan foresees RARS establishing a mentoring system. This action is associated with monitoring indicators such as "trained mentors" or "supported SMEs", but it does not specify how many mentors should be trained or how many SMEs supported by 2020.

In the RS, RARS is the dedicated public institution in charge of BSS provision to SMEs. In 2017, it had a total budget of almost BAM 5.9 million (around EUR 3 million). RARS provides information on how to register a business, and periodically delivers one-day training courses on how to develop a business plan. It co-ordinates the 14 local development agencies which have been established across the Republika Srpska, as well as SMEs' engagement with the Enterprise Europe Network. RARS has also implemented a number of projects which were supported by international donors, such as the support programme for innovative SMEs in co-operation with the Swedish International Development Cooperation Agency. The FBiH has no entity-level public agency to provide training or mentoring to SMEs. This function is carried out by the Federal Ministry of Development, Entrepreneurship and Crafts and regional development agencies in some cantons. While the FMRPO does not directly deliver training to SMEs, it provides information on relevant legislation and offers co-financing schemes.

An important development in this assessment period, which will improve BSS provision in the future, has been Bosnia and Herzegovina's participation in the second phase of the Establishment and Promotion of Mentoring Service for SMEs in the Western Balkans project. This project, which is being implemented in co-operation with the Japan International Cooperation Agency (JICA), seeks to build up a mentoring system provided to SMEs through development agencies in Serbia, Bosnia and Herzegovina, Montenegro and North Macedonia. The project follows the business support methodology developed by Serbia's former National Agency for Regional Development in co-operation with JICA and proposes the same programme activities. In Serbia, where the programme was standardised in 2008, it achieved very positive results (see Box 14.6).

In the FBiH, the programme is implemented by regional development agencies such as the Sarajevo Economic Region Development Agency (SERDA); 16 mentors were trained at SERDA and about 100 SMEs benefitted from its mentoring support over the three years between 2013 and 2016 (SERDA, 2018[15]). In 2017, SERDA implemented this mentoring programme with support from the European Fund for South East Europe – it benefitted 30 SMEs from the Sarajevo Canton and Eastern Sarajevo. In 2018, the FMRPO trained 17 new mentors in co-operation with SERDA. The FMRPO publishes on its website calls for participation by SMEs in this free-of-charge mentoring programme. In the RS, RARS is in the process of training future mentors.

Box 14.6. The Development Agency of Serbia's standardised mentoring service

Background

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

Programme activities

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

The programme allocates an expert mentor to spend a certain number of hours (from 25 to 50 hours per beneficiary) at the beneficiary's premises. The mentor and the SME's director jointly conduct a diagnosis to understand the business's operations, the reasons for any current problems or obstacles to further development, and the areas with the growth potential. Based on the factors identified, the mentor and the beneficiary then prepare a plan/development project. The business support plan could potentially relate to any functional area of the enterprise, including organisational structure, human resources management, financial management, logistics and distribution, production-technological processes, intellectual property, and quality systems. Depending on need, the mentor could also refer the SME to more specialised consulting services.

Impact

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

Results and feedback from SMEs (up to 2015)

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

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

The programme also contributed to raising awareness among Serbian SMEs about the importance and benefits of expert advisory support and non-financial business support schemes.

Success factors

While the programme faced a number of challenges during its planning and implementation phase, caused by bureaucracy and systemic public sector delays, it nonetheless achieved all its objectives. Furthermore, its results were so positive that they led to the mentoring programme being institutionalised in 2011 as a standard service for SMEs in Serbia, delivered by the RAS with support from JICA.

Source: RAS (2017[44]), *Create Life: Public Call for the Implementation of Standardised Mentoring Service*, http://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-the-implementation-of-standardised-mentoring-service; information collected from RAS over the course of this assessment.

Over the course of this assessment period, SMEs in both the FBiH and the RS have had access to co-financing schemes.

In the RS, RARS provides co-financing for consultancy support within the Consultant Network programme, covering 50% of eligible costs with an upper support limit of BAM 3 000 (around EUR 1 500). The total amount allocated to this programme in 2018 was BAM 44 870 (around EUR 22 900). In the FBiH, the FMRPO provides co-financing of 50% of eligible costs to SMEs under the Strengthening the Competitiveness of SMEs programme. This covers three areas: 1) technological improvement, improvement of product quality and standardisation of business and production processes; 2) training; and 3) market access and product promotion. In 2017, the total budget available for the first of these areas amounted to BAM 1.2 million (around EUR 610 000), of which BAM 250 000 was funded by the EU, with an upper support limit of BAM 38 000 (around EUR 19 400). The second area was allocated BAM 500 000 (around EUR 255 000), of which BAM 200 000 was financed by the EU, with an upper support limit of BAM 17 000. The third area has a budget of BAM 300 000 (around EUR 153 000) and an upper limit of BAM 10 000 (around EUR 5 100). Entrepreneurs under the age of 35 and women entrepreneurs have preferential access to this programme.

Both RARS and the FMRPO monitor their BSS provision, and compile annual monitoring reports. However, these reports are not publicly available (the latest financial audit report available on the RARS website dates back to 2015). In the FBiH, SMEs which benefitted from co-financing under the Strengthening the Competitiveness of SMEs programme need to report on the use of the grants, but are not asked to detail how satisfied they were with the scheme in general. Similarly, the RS has no formal mechanisms to collect the feedback of public BSS beneficiaries comprehensively and to use this information to adapt BSS provision accordingly.

RARS and the FMRPO provide information about BSSs on their websites. One notable development during this assessment period has been a joint project by RARS and the Ministry of Industry, Energy and Mining to establish a single web portal (www.preduzetnickiportalsrpske.net) for the RS in 2017. The project was financed by the European Union through the EBRD which also implemented it. The portal provides information on business practices, legislation and government institutions, associations, and international financial institutions such as the EBRD which are relevant to SMEs or which provide BSSs. It also features a database of private sector consultants, searchable by municipality, and their area and sector of expertise. This database is also available on the RARS website and at the time of writing featured 96 consultants. While the FMRPO does not provide a similar database, the Chamber of Economy of the Federation of Bosnia and Herzegovina does.

According to data received for this assessment, 387 SMEs benefitted from the FMRPO's BSSs in 2017 and 722 SMEs benefitted from publicly co-funded BSSs in the RS. This means that only 1.97% of SMEs in the FBiH, and 7.73% of SMEs in the RS used a publicly funded or co-financed BSS in 2017. In comparison, 23.1% of SMEs in Turkey and 18.8% of SMEs in Serbia used a publicly (co-)financed BSS, while the average for the seven WBT economies was 7.6% of SMEs.

The way forward for Dimension 5a

While Bosnia and Herzegovina has made progress over the course of this assessment period, it could consider the following actions to improve its BSS provision to SMEs:

- **Analyse the needs and supply of BSSs more effectively and regularly** to fill the gaps in BSS provision, better target the support provided and create more effective BSS provision systems. Over this assessment period, the relevant public institutions in the FBiH and the RS have not conducted a training needs analysis. They should make sure that BSS programmes and initiatives are tailored to the characteristics and dynamics of micro and SME beneficiaries, as well as to the industry sector they belong to, their stage of development and actual experience in the market. This should be done in co-operation with chambers of commerce or SME associations.

- **Strengthen the monitoring and evaluation of BSS programmes in both entities.** This is of paramount importance for increasing the effectiveness of BSSs and public budget allocation and spending. Both entities should also consider calling in an independent institution to conduct an in-depth evaluation of the BSSs offered by public institutions, assessing the impact of BSS programmes according to key performance indicators and avoiding overlap.
- **Introduce a quality assurance mechanism, such as an accreditation system for private sector consultants** which SMEs are required to use under co-financed support programmes. With the exception of the mentoring services provided through JICA, SMEs can freely choose a private sector consultant under either the FBiH's Strengthening Competitiveness of SMEs programme or the RS's Consultant Network programme. Both entities should consider introducing an accreditation system to ensure private sector providers have a minimum level of experience and qualifications. Subsequently, it could limit SME co-financing support to accredited private sector consultants and trainers.

Public procurement (Dimension 5b)

Bosnia and Herzegovina obtains a weighted score of 3.57 for this dimension (Table 14.14), the second worst result for the WBT economies. However, BiH was one of only three economies which has made progress since 2016, when it scored 2.3 (Figure 14.1), and has also achieved the biggest improvement in score. This progress was made from a very low starting level, though.

Table 14.14. Scores for Dimension 5b: Public procurement

Dimension	Thematic block	BiH	WBT average
Dimension 5b: Public procurement	Policy and regulatory framework	2.89	3.92
	Implementation	4.28	4.05
	Monitoring and evaluation	2.85	3.24
	Weighted average		
BiH's overall score for Dimension 5b		**3.57**	**3.84**

State of play and key developments

There have been no changes to public procurement provisions during the assessment period. Public procurement is regulated under the Public Procurement Law of 2014 (the PPL). The PPL is based on the EU Public Procurement Directives adopted in 2004; the 2014 EU Procurement Directives are yet to be implemented. Comprehensive amendments to the PPL to transpose these directives are in progress, and the draft of the relevant law was finalised by a working group in July 2018.

The general principles of the PPL are that contracting authorities should act transparently, and treat candidates or bidders equally, without discrimination and in a manner that will ensure active competition. The aim is to ensure the most efficient spending of public funds, taking into account the subject matter of procurement and its purpose. Foreign companies have access to contracts awarded in Bosnia and Herzegovina, but the PPL provides for the mandatory application of preferences for domestic bidders, which are regulated in a special implementing regulation adopted by the Council of Ministers. For the purposes of comparison and selection of the best tender, the prices submitted by domestic bidders are calculated in accordance with a preference factor of 10% for procurement procedures conducted in the period 2017-18 and of 5% until the end of 2019. Only companies from Central European Free Trade Agreement (CEFTA) countries are ensured equal treatment as domestic companies.

Apart from domestic preferences, there are not as many barriers and limitations in access to public procurement as elsewhere in the region, such as limitations concerning subcontracting or special requirements for consortia. PPL provisions allow for all the instruments which are relevant for enabling SMEs to access public procurement procedures: the division of procurement into lots, joint bidding (participation of consortia), subcontracting, and the application of proportionate and non-discriminatory requirements concerning the participation of economic operators.

Although the PPL allows contracting authorities to divide public procurement contracts into lots, they are not obliged to do so. When contracting authorities do divide the subject matter of procurement into lots, all the lots must be marked in the bidding documentation so as to allow the bidders to submit bids for one lot, several lots or all the lots. The contracting authorities should clearly and precisely define in the bidding documentation the conditions and manner of submission of bids for lots. The public procurement contract should be concluded separately for each lot but if one bidder is successful on two or more lots, a single contract may be concluded. Contracting authorities may also limit the number of lots for which bidders may apply for. In this case they should reject the tenders of bidders who submitted tenders for more lots than they were allowed. In practice, 25-40% of procurement procedures are divided into lots.

Strategic documents related to public procurement now pay more attention to the issue of the participation of SMEs. The Public Procurement Strategy emphasises the need to pay particular attention to SMEs' situation when preparing amendments to the PPL, and defines those elements which would improve the participation of SMEs in public procurement procedures in Bosnia and Herzegovina.

The Public Procurement Agency (PPA) is an independent administrative body responsible for policy making, preparing draft legislation, monitoring, and advisory and training activities in the field of public procurement. It has two branch offices, in Banja Luka and Mostar. The PPA submits a report to the government every year on the functioning of the public procurement system. However, it does not apparently collect and analyse information about the obstacles encountered by SMEs in accessing public procurement; nor do the annual reports provide information about the participation of SMEs in public procurement procedures. However, they do include rich statistical data on the contracts awarded and the origin of economic operators who won the contracts. For example, according to the 2017 report, domestic suppliers obtained 98.6% of all concluded contracts in 2016. The annual report for 2016 also showed an increase in the value of contracts awarded to groups of economic operators: they represented 12.5% of the value of all awarded contracts, up from 4.9% in 2015. Groups of economic operators still only obtained a small number of public contracts, however: 0.18% of all concluded contracts in 2016, up from 0.17% in 2015.

The Procurement Review Body (PRB) is an independent and autonomous institution responsible for reviewing complaints submitted by economic operators. Any economic operator with or having had an interest in a public procurement contract award is allowed to appeal if they can make the case that damage was or could have been caused by the public procurement procedure because of the actions of the contracting authority. Before a complaint is submitted to the PRB, it should be examined by the contracting authority in question. Those appealing need to pay a fee before the appeal will be reviewed by the PRB. The fees are set according to the value of the entire public procurement contract and range from BAM 500 (around EUR 255) to BAM 25 000 (around EUR 12 800). In terms of the number of members, the PRB is the largest in the region, with 17 members. Besides its central office, the PRB has two branch offices in Mostar and Banja Luka which are responsible for reviewing appeals on smaller value procurement contracts. The branch offices do not have support staff, and the institution as a whole lacks basic technical resources, such as a website and professional e-mail addresses. Such shortages of supporting staff and technical resources have negative repercussions for the efficiency and quality of the overall functioning of the institution, especially in light of an increasing number of complaints.

The way forward for Dimension 5b

The biggest challenge for Bosnia and Herzegovina will be transposing and implementing the 2014 EU Public Procurement Directives. BiH should also improve its monitoring by increasing the range of information about public procurement which is collected and processed by the PPA. It could do more to improve the access of economic operators to review procedures: the fees required to submit an appeal to the PRB are higher than in other economies of the region. On the positive side, Bosnia and Herzegovina has quite well-developed electronic public procurement instruments.

Going forward Bosnia and Herzegovina should put more emphasis on the following:

- **Further align national legislation with EU rules and international good practice**.
- **Ensure that economic operators have access to public procurement on equal footing regardless of their origin**:
    - Complete the implementation of 2014 EU public procurement directives.
    - Ensure that the PRB has a more prominent Internet presence, in particular its own website, where all the relevant information about appeals can be found alongside information about the PRB and the remedies and rulings it has adopted.
- **Remedy the issue of lack of expert staff in the PRB.**
- **Constantly monitor and analyse obstacles faced by SMEs in access to public procurement markets**, including the cost of access to legal protection in public procurement.
- **Lower the fees to be paid by economic operators** complaining to the PRB against the decisions of contracting authorities.

Access to finance for SMEs (Dimension 6)

With an overall score of 3.26 (Table 14.15), Bosnia and Herzegovina is now the worst performer of the seven WBT economies in this dimension, just behind Albania and Kosovo. While BiH has made tangible efforts to improve access to finance for SMEs, such as inter-entity aligning of banking regulation and strengthening non-bank finance regulation, SMEs' access to finance remains restricted by a fragmented administrative system and a lack of sustainable and evaluated support.

Table 14.15. Scores for Dimension 6: Access to finance

Dimension	Sub-dimension	Thematic block	BiH	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	3.85	4.20
		Registers	4.50	4.58
		Credit information bureaus	4.25	4.55
		Banking regulations	3.00	3.79
		Stock market	3.07	2.93
		Weighted average	**3.87**	**4.14**
	Sub-dimension 6.2 Bank financing	Banking lending practices and conditions	2.74	2.92
		Credit guarantee schemes	2.17	2.30
		Weighted average	**2.51**	**2.67**
	Sub-dimension 6.3:Non-bank financing	Microfinance institutions	4.33	3.57
		Leasing	2.75	2.84
		Factoring	1.75	2.45
		Weighted average	**2.94**	**2.95**
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	1.82	2.32
		Design and implementation of government activities	1.34	2.48
		Monitoring and evaluation	1.00	1.48
		Weighted average	**1.44**	**2.22**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	1.38	2.44
		Monitoring and evaluation	1.00	1.19
		Weighted average	**1.31**	**2.19**
BiH's overall score for Dimension 6			**3.26**	**3.53**

State of play and key developments

Legal and regulatory framework

The legal framework for secured creditors is well regulated across Bosnia and Herzegovina, with jurisdiction split between the entity and national levels. In 2016, the RS passed a new Bankruptcy Law, with support from the International Finance Corporation, which has further aligned proceedings with international best practice. While recovery rates and costs as percentage of estate are comparable to or better than regional averages, the process remains burdensome and lengthy (World Bank, 2018[45]).

Banking regulation in Bosnia and Herzegovina falls under the entities' banking supervisory authorities. This area has seen particular improvement during the assessment period as both entities have passed new banking laws, strengthening supervision and inter-entity alignment. These laws have brought the banking regulations further in line with the Basel II (and to some extent Basel III) requirements, particularly the new minimum capital adequacy ratio introduced in the RS in January and the FBiH in April 2018. While these regulations will require further fine-tuning with regards to countercyclical buffers and systemic bank buffers, this represents an important step forward.

The two entities also administer separate cadastres that together provide full coverage and are both accessible on line, much like the registration system for movable assets which is under national jurisdiction. A public credit information system is also in place, falling under the authority of the national government. There is also an operational national private credit information system, but it is neither recognised nor overseen by a regulator.

Both entities have had capital markets available since 2001 through the Sarajevo and Banja Luka stock exchanges, although neither offers a separate market for low capitalisation firms. In a positive move for market integration, both stock exchanges joined the EBRD-supported SEE Link in 2017, the regional platform for cross-market trading.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Bank lending continues to be the dominant form of financing across Bosnia and Herzegovina. At 53% of GDP in 2016 it is substantially above the Western Balkan average of 45%. While there are no official numbers on lending to SMEs as a share of total lending, this is estimated at 48% (IMF, 2016[46]; World Bank, 2018[1]). According to data from the Central Bank of Bosnia and Herzegovina, the latest macroeconomic indicators are similarly favourable, with a notable increase in credit growth (7.2% year-on-year in 2017), supported by a reduction in non-performing loans from 15% of all loans in 2013 to 10% at the end of 2017 – highlighting the increased stability of the banking sector.

Government financial support schemes for SMEs are limited. There are support programmes for SMEs across the country, but complex administrative structures inhibit many aspects of their operation, from standardised data collection to the co-ordination of delivery mechanisms. For example, credit guarantee schemes in the FBiH are administered at an additional level of administration between the cantons and the entity, with no strategy, monitoring or evaluation at any higher administrative level – neither entity nor state. This means the credit guarantee schemes that SMEs have access to in the FBiH vary widely in size and terms depending on their location, and there are no reliable statistics on their uptake. The RS Government has a centralised credit guarantee scheme (through the RS Guarantee Fund), but uptake has fallen sharply – from EUR 1.8 million in 2015 to EUR 440 000 in 2016 – for reasons that remain unclear. Both entities provide publicly funded lending to SMEs, painting a very similar picture. In the RS, the Investment and Development Bank (IRBRS) provides only specialised loans (credit lines) through financial intermediaries from its own funds. Since 2015, the IRBRS has offered no direct loans to SMEs. In the FBiH, public sector lending is provided at cantonal level with no known involvement by the entity or state. The interest rate subsidies provided by some of the cantons also raise questions about sustainability, as they risk crowding out the private sector.

When it comes to non-bank financing, recent legislative changes have laid the groundwork for the expansion of these sources of finance. There are 12 microfinance institutions in both entities, mainly self-funding with limited donor involvement. Leasing is available and well regulated across both entities following established best practices (recently amended in the FBiH), while dedicated factoring legislation was introduced in the FBiH with the 2016 Law on Factoring. Despite these positive legal developments, it is difficult to assess the actual uptake of these instruments in the absence of any state-level statistics. Only the RS makes any data on the uptake of non-bank financing available, and this shows an increase in microfinance and a decrease in leasing levels (reportedly due to high fees). No such information has been provided by the FBiH or a national body and it remains unclear to what extent it is collected.

The ecosystem to support the establishment of venture capital operations remains rudimentary. While both entities allow venture capital operations under their respective laws on investment funds, neither has a dedicated framework, nor any plans to establish one. RARS in the RS has prepared a study on venture capital regulation and risk capital activity, although any possible further steps and legislative or regulatory follow-ups remain unclear. Similarly, there are no business angel networks operating in Bosnia and Herzegovina, despite previous (donor-funded) attempts to create them. There are reports of tentative plans at the national level, but nothing specific has materialised.

Financial literacy

Mechanisms to support financial literacy in BiH show some promising signs, although overall implementation is hindered by the lack of a centralised strategy, monitoring or evaluation either at the entity or national level. Most notably, the secondary school curriculum of the Republika Srpska covers financial literacy and the education system provides training for teachers, though the exact scope remains unclear.

In the area of adult learning for either potential or existing entrepreneurs, the picture is similar to the rest of the Western Balkan region: scattered training targeting very particular groups without any prior needs assessment, centralised strategy, oversight or evaluation. At the national level, the donor-funded “U Plusu”[20] portal provides training and workshops across BiH, as well as online information, while in the RS, RARS the Chamber of Commerce and the ombudsman for the banking system implement ad-hoc training and awareness-raising events, as well as a central entrepreneurship portal.

The way forward for Dimension 6

While Bosnia and Herzegovina has shown signs of progress in some areas, several areas for further improvement remain:

- **Continue to align the financial space.** At the most fundamental level, SMEs’ access to finance remains inhibited by the complex administrative divisions and subsequent lack of policy alignment across the state. The ultimate aim of alignment should be to enable frictionless operation across the whole of Bosnia and Herzegovina – a single financial space – regardless of the level at which it is regulated. In this area, the recently strengthened co-ordination of banking supervision is a promising development. Similar initiatives in the field of support mechanisms, such as credit guarantee schemes, would go a long way towards simplifying the SME finance ecosystem.
- **Strengthen the non-bank financing ecosystem and standardise data collection.** Efforts should be made to standardise data collection for leasing and factoring to reliably capture the uptake of these increasingly important and (in the FBiH) newly

amended sources of alternative finance. Efforts to raise awareness of these alternative products could also help, especially where legal reforms are in place to facilitate higher uptake levels.

- **Introduce a financial literacy strategy.** Such a strategy, including standards and evaluation criteria for financial literacy training, would allow the stringent evaluation of all training and its subsequent adjustment, based on need.

Standards and technical regulations (Dimension 7)

Bosnia and Herzegovina's overall score for this dimension was already the lowest in the region in the 2016 assessment, and has fallen further, to 2.78 (Table 14.16). This is largely due to inadequate co-operation between the state and entity levels, leading to backlogs in aligning legislation with the EU *acquis*.

Table 14.16. Scores for Dimension 7: Standards and technical regulations

Dimension	Sub-dimension	Thematic block	BiH	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures		1.83	3.12
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	2.47	3.87
		Standardisation	2.88	3.97
		Accreditation	2.44	4.53
		Conformity assessment	2.07	3.65
		Metrology	2.89	4.47
		Market surveillance	3.80	4.43
		Weighted average	**3.09**	**4.15**
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	3.97	4.24
		SMEs participation in developing standards	1.00	2.57
		Financial support to SMEs	1.93	2.39
		Weighted average	**2.30**	**3.07**
BiH's overall score for Dimension 7			**2.78**	**3.83**

State of play and key developments

Overall co-ordination and general measures

Bosnia and Herzegovina is yet to implement a mechanism for the overall co-ordination of its quality infrastructure pillars. The long-expected country-wide strategy on quality infrastructure was envisaged by the 2016-18 Work Programme of the Council of Ministers of BiH, but is yet to be adopted. The RS has established its own co-ordination body and has adopted a draft strategy for Quality Infrastructure of Products and Services for the period 2018-22. Where the entities have no mutually harmonised legislation, e.g. chemicals, food supplements and cosmetics, SMEs need to formally register in both entities to be able to place their products on the market and are audited by market surveillance authorities in each entity.

A designated portal and a contact point have not been established at the state level to assist SMEs in placing their products on the EU Single Market. In the RS, the Export Info Centre provides information on standards and technical regulations, and on how to comply with them, but SMEs in the FBiH can only access the relevant information from the websites of different ministries and government agencies.

Harmonisation with the EU acquis

The Law on Technical Requirement and Conformity Assessment mandates the BiH's Ministry of Foreign Trade and Economic Relations to issue technical regulations, based on the draft proposals of the BiH Committee for Technical Regulations. The committee, composed of representatives from all levels of governments, led the transposition of seven New Approach directives.[21] However, it has not convened since 2012 as the RS government first requested that the law be amended with respect to the committee's competences in issuing technical regulations and appointing conformity assessment bodies in BiH. Since then, EU legislation has not been aligned in a uniform manner throughout the economy. The RS continues to adopt legislation to transpose technical regulations separately from the state level, the FBiH and the Brčko District.

The Institute for Standardisation of Bosnia and Herzegovina (ISBiH) is the state body responsible for standardisation, including adopting international and national standards.[22] In the RS, the Bureau for Standardisation and Metrology participates in the preparation of national standards but can also issue RS standards as entity standards. Currently, no RS standard has been issued and only national and international standards are in place. Co-operation between the two bodies in the area of standardisation is based on the 2011 Agreement of Co-operation. With only 38 employees out of the 52 originally planned, ISBiH only has enough staff to achieve the targets in its annual work plan, but cannot fulfill the need to translate European standards. As of August 2017, Bosnia and Herzegovina had adopted 20 093 European standards as national ones – an adoption rate of about 87%. Of these, 19 904 standards were adopted by the endorsement method, i.e. issuing an endorsement notice, which makes it difficult for SMEs to trace the relevant standards, understand their content or apply them correctly.

ISBiH is an affiliate member of the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). One of the goals set by the strategy and action plan for the development of ISBiH for 2015-20 is to obtain full CEN/CENELEC membership. According to an internal evaluation of the respective action plan, it has already met 75% of the membership criteria. ISBiH is also a member of the International Organization for Standardization (ISO), and an associate member of the International Electrotechnical Commission.

In the area of accreditation and conformity assessment, state-level legislation is only partially aligned with the EU *acquis* and the RS develops and implements its own legislation in this area. The Institute for Accreditation of BiH (BATA) is responsible for implementing BiH's overall accreditation system. Its operations are in line with Regulation (EC) No.765/2008. In this area, the state legislation is applied throughout BiH and at all levels of government. All accredited CABs are easily accessible to SMEs through an online register on BATA's website, which provides detailed information on the type of activities they undertake.

Since 2015, BATA has had only 21 employees and is facing difficulties in supervising the increasing number of accredited bodies, which grew from 77 in 2016 to 116 in 2018.[23] In the immediate future, BATA expects to receive more applications for accreditation and will have additional tasks related to alignment with the EU *acquis*. Moreover, BATA aims to increase the formal recognition of its accreditations internationally. It is an associate member of the European Co-operation for Accreditation (EA) and signed a Bilateral Agreement (EA BLA) for calibration, testing (excluding medical laboratories) and inspection in 2012. BATA was positively assessed for these three fields in 2017 and according to its 2018-21 Medium-Term Action Plan, aims to extend the scope of the EA BLA with an additional field by 2021. BATA is also a full member of the International Laboratory Accreditation Co-operation and signatory to its Multilateral Recognition Agreement. Bosnia and Herzegovina has also established co-operation agreements in the area of accreditation with economies in the region. In October 2018, it signed a memorandum of understanding (MoU) with Serbia to mutually recognise documents issued by accredited laboratories for industrial non-food products, which will further remove trade barriers and facilitate SME exports.

The current BiH legislation on metrology is not fully aligned with the EU *acquis*. The state-level Institute of Metrology of Bosnia and Herzegovina (IMBiH) is in charge of scientific metrology in Bosnia and Herzegovina, while legal metrology is conducted by IMBiH and two entity-level institutions (the Bureau of Metrology of the FBiH and the RS Bureau for Standardisation and Metrology). A Metrology Council has been established to better co-ordinate the work between the metrology institutions at the state and entity levels. However, its members are yet to be appointed due to disagreements between IMBiH and the entity-level institutions on the appointment procedure. In 2018, IMBiH significantly improved the metrology system by adopting 15 new rulebooks for measuring instruments. With 51 employees out of a planned 72, and a moratorium on hiring civil and non-civil servants in force since 2010, IMBiH is unable to further develop the metrology system in Bosnia and Herzegovina.

IMBiH is an associate member of the European Co-operation in Legal Metrology and a member of the European Association of National Metrology Institutes. It is also an associate state of the International Bureau of Weights and Measures, and a corresponding member of the International Organization of Legal Metrology. IMBiH has established co-operation with other national metrology bodies in the region. In 2017, it signed an MoU with Turkey's national metrology institute on co-operation in scientific and legal metrology. This co-operation includes joint research projects and developing legal metrology services for agriculture, the environment and medical devices in line with EU legislation.

Bosnia and Herzegovina's market surveillance system consists of the Market Surveillance Agency of BiH, and inspection authorities in the RS, the FBiH and the Brčko District. Co-operation among all these authorities is ensured through the National Co-ordination Board. According to the Market Surveillance Agency 2017's annual report, 20 product groups were treated as part of proactive surveillance and 27 cases were initiated through reactive surveillance. As a result of 190 product safety inspections, 7 263 unsafe products were withdrawn from the market and businesses have aligned 27 136 products with safety requirements. During this assessment period, the market surveillance authorities have emphasised guidance and support to local businesses. In 2016, the Market Surveillance Agency started publishing a guide for businesses with instructions on manufacturing and selling safe products. It is an annual publication with a focus on the products that will be subject to surveillance in the year of publication. In co-operation with BiH business associations, since 2017 the agency has organised four training and workshop events for businesses to support them in placing products on the EU and national markets.

SME access to standardisation

Bosnia and Herzegovina has only basic measures in place to facilitate SME access to standardisation. ISBiH publishes biannual information bulletins to inform the public about its activities and the latest developments from ISO and CEN/CENELC, but there are no practical guides on implementing standards or local case studies on the benefits of using them. Training to support SME implementation of standards and general awareness-raising events are rare. However, ISBiH has established a standardisation helpdesk for SMEs through its website.

Bosnia and Herzegovina is yet to introduce financial or other measures to encourage SME involvement in Technical Committees (TCs), such as covering their travel costs or introducing digital tools to ease their participation. However, participation in the work of the ISBiH expert bodies, including Technical Committees, remains free for SMEs and for all other interested parties. Committee meetings are also held in different cities to reduce the cost of participation for SMEs.

There are no financial support programmes at the state level. In 2017, the FBiH supported 12 SMEs to introduce international quality standards (HACCP, HALAL, introduction of CE marking), based on the annual Strengthening the Competitiveness of SMEs grant scheme. In the same year, 11 companies from the RS benefited from sector-specific grants (e.g. wood processing and textiles) provided in co-operation with the United States Agency for International Development's Workforce and Higher Access to Markets Activity (USAID WHAM) project. In the Brčko District, SMEs can benefit from subsidies to introduce international quality standards, based on the Brčko District Law on Subsidies from 2016.

The way forward for Dimension 7

The process of harmonising legislative framework with the EU *acquis* has stagnated in Bosnia and Herzegovina. In the future, policy makers should:

- **Develop a state-wide strategy on quality infrastructure and implement a co-ordination mechanism across different levels of government.** EU legislation is currently not being uniformly aligned throughout Bosnia and Herzegovina, leading to inadequate harmonisation not just with the EU *acquis*, but also between the entities. As a result, SMEs can have difficulties exporting to the Single Market and may be forced to register twice if selling their products in both entities. Given the limited institutional resources in both entities, co-operation will be important to further develop quality infrastructure system and support SMEs.
- **Improve SME access to standardisation.** Bosnia and Herzegovina should seek new channels to raise awareness of the benefits of standards among SMEs. Currently, ISBiH's awareness raising of standards is limited to biannual information bulletins and occasional public seminars. It needs to be more proactive to reach out to SMEs. It could offer sets of standards for particular sectors or disciplines and present them to SMEs during relevant events for their community, e.g. start-up events. BiH should also find new ways to encourage SMEs to get involved in the process of developing standards. It could introduce web-conferencing tools to decrease the cost of participation and develop case studies of SMEs that have benefitted from participating in standardisation.

Enterprise skills (Dimension 8a)

The overall score for this dimension stands at 2.70, on a par with its 2016 assessment and below the regional average (Table 14.17). Good efforts are noted in building skills intelligence across all entities which will allow for better targeting of funds to support SME training demand, particularly for sectors with growth potential.

Table 14.17. Scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	BiH	WBT average
Dimension 8a: Enterprise skills	Planning and design	3.50	3.38
	Implementation	2.50	2.83
	Monitoring and evaluation	2.00	2.29
	Weighted average	**2.70**	**2.87**
BiH's overall score for Dimension 8a		**2.70**	**2.87**

State of play and key developments

The 2016 SBA assessment noted good developments in state-wide SME skills intelligence. Since then, these have been followed up in the FBiH as part of its SME development programme. In the RS, local development agencies have led on SME skills surveys in key sectors (industry, agriculture, food, hospitality and electronics), which is good practice, including the training offer by RARS for the metal sector. The Chamber of Commerce in the RS also continues to track SME manpower developments. A number of policy instruments identify poor technology and skills weaknesses in the agriculture sector, and concerns have been raised about the underinvestment in skills for the services sector.[24] It will be important for the authorities and training community, including universities, to respond to these challenges to avoid them becoming bottlenecks to implementing smart specialisation.

The wider preparations by the state to join the European Union will require dedicated support for small businesses to operate and compete within the EU internal market, where trade and business administration is increasingly digitalised. Good efforts, particularly by the Chamber of Commerce for Foreign Trade, have been made in providing training for SMEs to access international markets. However, training on digital skills among SMEs, including more developed online access to training, is weak.

The 2018-20 Economic Reform Programme highlights the low levels of innovation in the economy and raises concerns over brain drain, with BiH ranked 135th out of 137 economies for capacity to retain talent (WEF, 2017[47]). Increasing skills levels through support for innovation will be important in the wider bid for competitiveness and growth, and particularly to retain talent. Universities therefore can no longer remain on the fringe of the wider drive for economic reform. With more concerted efforts in the Western Balkan region to kick-start smart specialisation, a more developed discussion at state and entity levels is required and should include: 1) the role of universities in local, regional and state level economic reforms; 2) interfacing medium- to higher-level vocational skills with innovation in targeted sectors; and 3) the potential for engagement and contribution of existing incubators.

Overall, across all the entities, policies and services to support the start-up ecosystem are under developed. Training services should more clearly distinguish between new start-ups, early-phase businesses and those with growth potential, which also require more differentiated financial support. In particular, services need to meet the specific needs of women entrepreneurs.

The way forward for Dimension 8a

SME staff developments remain undeveloped within the wider economic reform agenda. If SMEs in Bosnia and Herzegovina are to compete effectively in the EU internal market, BiH needs to strategically build management and trade skills in those sectors with greater economic potential. This requires more sustained support for training at policy level, accompanied by monitoring and evaluation of training set against SME performance and wider economic development objectives.

The governments would be advised to take the following measures:

- **Embed skills development in economic strategies.** The next update of economic development strategies at entity level, including the 2019 Economic Reform Programme, should include management, vocational and regulatory training for SMEs in key economic sectors, and particularly focus on those sectors with growth and EU-trading potential. Incentives to encourage employers to develop talent within SMEs should be considered.
- **Hold policy dialogue on smart specialisation.** With more concerted efforts in the Western Balkans to kick-start smart specialisation, a more developed discussion is required at state and entity to include universities, vocational education and training skills in targeted sectors. The state’s 12 incubators should be included in the policy dialogue.

Innovation policy for SMEs (Dimension 8b)

Bosnia and Herzegovina has the lowest score in the WBT region for this dimension, with a score of 1.86 (Table 14.18), which is well behind Kosovo (2.40) and Albania (2.48). What is perhaps most worrying is that it has made no visible improvements since the 2016 assessment (Figure 14.1).

Table 14.18. Scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	BiH	WBT average
Dimension 8b: Innovation for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	2.25	**3.46**
		Co-ordination of innovation policy	1.44	2.97
		Implementation of innovation policy	1.86	3.04
		Weighted average	**1.89**	**3.15**
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	2.24	2.99
		Technology extension services for established SMEs	1.00	1.74
		Weighted average	**1.74**	**2.49**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	2.53	3.76
		Indirect financial support	1.00	1.38
		Weighted average	**1.92**	**2.81**
	Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	1.67	2.52
		Institutional infrastructure for industry-academia co-operation	1.67	2.72
		Intellectual property rights	2.50	3.00
		Weighted average	**1.83**	**2.70**
BiH's overall score for Dimension 8b			**1.86**	**2.86**

State of play and key developments

Policy framework for innovation

Research and development (R&D) and innovation policy is dealt with at the entity level. In the Republika Srpska, the key strategic framework for innovation is the recently adopted Strategy for Scientific and Technological Development (2017-20). Many of the measures it proposes are directly linked to the Innovation Centre in Banja Luka. In the Federation of Bosnia and Herzegovina, the only active document that discusses innovation is the SME Development Action Plan (2016-18). However, the Ministry of Development, Entrepreneurship and Crafts is leading efforts to develop the 2018-23 Innovation Strategy. Neither the RS nor the FBiH have any formal co-ordination mechanisms for innovation policy and no implementing agencies focusing solely on innovation. However, in the RS, RARS is co-ordinating the implementation of the Scientific and Technological Development Strategy.

Private sector actors are not systematically consulted when innovation policies are developed and there are no evaluation practices in place. The institutional set-up for innovation policy is highly decentralised across the various levels of government and there is no mechanism to co-ordinate these actors.

Government institutional support services for innovative SMEs

Both the RS and the FBiH have business incubators. The Innovation Centre in Banja Luka is the oldest initiative of this type in the RS, which now also has other four functional incubators, namely the Entrepreneurship Centre Banja Luka, Innovation Centre East Sarajevo and business incubators in Prijedor and Trebinje. There are 10 active incubators in the FBiH, which are directly supported by the government, despite a declining budget for this. In 2017, the FBiH’s total investment in all forms of entrepreneurship support infrastructure was around EUR 500 000. There are reports of a number of incubators closing in the past two years, while some have stopped functioning as incubators because they allow companies to remain as tenants with no time limits.

In 2017, a new project was launched – Developing Accelerators to Provide Better Access to Innovation Finance for SMEs – supported by the Danube Transnational Programme (2014-20). Under this project, RARS is part of a 15-partner consortium of actors from 9 European countries and will receive about EUR 200 000 in total for its activities, with the goal of piloting an accelerator programme in the RS in 2018, based on good practices of partner consortium members.

There are no technology extension services in Bosnia and Herzegovina.

Government financial support services for innovative SMEs

Bosnia and Herzegovina’s new Challenge to Change project, which started running in November 2016, has for the first time secured EUR 3.2 million for innovation enterprises. The project is open to SMEs from all over Bosnia and Herzegovina and Sweden, as well as start-ups that have innovative business ideas, products or services which may lead to increased employment, competitiveness and sustainable socio-economic development in BiH. With Swedish donor support, SERDA, together with RARS, have developed the conditions needed to launch the programme, which is planned to continue until 2020. Companies that meet the established criteria can receive a co-funding grant amounting to a maximum of 30 000 EUR, up to 50% of the investment costs (Challenge to Change, 2019[48]). During the first call for proposals in 2017, 701 applications were submitted. The project shortlisted 80 of these and 28 were selected for funding, for a total investment of EUR 2.3 million.

SME and research institution collaboration and technology transfer

There have been no innovation vouchers or collaborative grants implemented in Bosnia and Herzegovina so far.

There are four science and technology parks in the FBiH – Zenica, Mostar, Tuzla and Sarajevo. The one in Zenica includes a specialised centre for new technologies and excellence in the wood industry – giving all companies in this sector access to the latest technological advances. The park in Zenica has 21 active resident companies, with over 70 employees. The INTERA tech park in Mostar is another great example of a private initiative which received public support – it has been operating successfully for ten years.

During this time, 38 companies have passed through the park and 360 jobs have been generated.

There is no legislation in Bosnia and Herzegovina to encourage technology transfer and commercialisation by defining the ownership of intellectual property and royalty split for publicly funded research.

The way forward for Dimension 8b

It is clear from this discussion that Bosnia and Herzegovina needs to significantly increase the importance of private sector innovation in its overall economic policy to improve policy formulation, co-ordination and implementation and to allocate budget to support such activities. The following measures will help:

- **Improve co-ordination of R&D and innovation policies.** Co-ordinating innovation policy is a challenge across all OECD countries, given the large number of stakeholders involved. In Bosnia and Herzegovina the different levels of government bring additional complexity. However, regardless of the level at which R&D and innovation policy is defined, it is crucial that it takes into account the complementary activities of other institutions, the needs of the private sector, and the capacity of the research sector to take part.
- **Secure direct funding for private sector R&D and innovation activities.** OECD countries typically use a mix of direct and indirect financing instruments for innovative SMEs but as Bosnia and Herzegovina has neither it should focus on creating a reliable, well-funded seed-funding instrument. This would support only the best proposals, providing enough funding for enterprises to conduct R&D activities, develop prototypes and test their ideas. Such an instrument could be modelled on the experiences of other economies in the WBT region, such as Serbia and North Macedonia, or OECD or EU member states. The Challenge to Change project is a good start, but runs the risk of remaining a one-off donor-based programme, like so many other initiatives in the country.
- **Implement an innovation voucher scheme.** Bosnia and Herzegovina lacks many of the elements needed to bring researchers and business together for R&D and innovation activities. Instead of tackling all of these challenges at once, BiH could consider starting with an innovation voucher programme, which provides small lines of credit to SMEs to purchase services from public knowledge providers with a view to introducing innovations in their business operations (OECD, 2010[49]).This cost-efficient instrument has an extremely low administrative burden and is an excellent tool for bringing the two communities together. Ideally, it would be followed by a more significant funding instrument for joint research projects, but even without this element it is a pre-condition for creating dialogue between the two communities to examine avenues for co-operation and to create a basis for joint work.

SMEs in a green economy (Dimension 9)

Bosnia and Herzegovina is one of the few WBT economies to increase its score in this dimension (Figure 14.1) – up slightly from 2.29 in 2016 to 2.40 in 2018 (Table 14.19). Although SME greening seems to be gaining momentum in BiH, its overall performance is still low.

Table 14.19. Scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	BiH	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.47	3.81
		Implementation	2.50	2.56
		Monitoring and evaluation	2.00	2.12
		Weighted average	**2.69**	**2.85**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	1.67	2.32
		Implementation	2.42	2.76
		Monitoring and evaluation	2.25	1.72
		Weighted average	**2.16**	**2.42**
BiH's overall score for Dimension 9			2.40	2.61

State of play and key developments

Framework for environmental policies targeting SMEs

In Bosnia and Herzegovina, SME greening policies are devised and implemented at the entity level, with no state-level institutions in charge of promoting the green economy. Strategies and action plans that include goals for the green economy are also adopted at the entity level. The newly adopted Strategy for Rural Development (2018-21) is the only state-level strategy that includes some environmental protection measures that could be relevant for SMEs. These actions are aimed at promoting and certifying organic production, as well as reducing the carbon footprint of agricultural production (e.g. the use of renewable energy sources in agriculture). Concrete activities, a clear timeline and the institutions responsible for their implementation have yet to be determined – however, the strategy specifies that the measures will be implemented at the entity level.

At entity level, only the RS has environmental policies that encompass SMEs. Since the last assessment, the RS has introduced SME greening into its 2016-20 SME Strategy. One of the goals of the strategy is improved environmental performance among SMEs. Government actions focus on information campaigns and training to raise SMEs' awareness of environmental issues and help them obtain all the information they need to "go green". The government also envisages introducing eco-labelling to increase market recognition of good environmental practices. The strategy promotes better energy efficiency among SMEs and provides financial support in this area. Implementation of the planned activities has been rather slow, mainly due to significant delays in mobilising funds and reliance on donor support for SME greening.

In the FBiH, as the previous assessment also found, environmental policies are separated from SME policies so there are no clearly defined environmental policies targeting SMEs. The FBiH's comprehensive Environmental Protection Strategy, which runs until 2030, does not contain SME-specific actions or targets, but it does indirectly promote eco-efficiency and eco-innovation among businesses, and by extension among SMEs. FBiH's Waste Management Strategy (2008-18) also includes environmental policy elements that are relevant to SMEs, such as promotional activities on waste prevention and recycling, and guidance regarding cleaner production actions.

Incentives and instruments for SME greening

Both entities have operational environmental protection funds which have increased the scope and outreach of their programmes and activities since the last assessment. They both offer environmental information and support to help interested parties and beneficiaries improve their environmental performance. However, they still mostly focus on large – mainly infrastructural – projects.

In the RS, the SME Strategy foresees the introduction of financial incentives for SME greening which will be realised through projects by the Fund for Environmental Protection and Energy Efficiency. To date however no activities have been implemented to achieve this.

Since the last assessment, BiH has begun recognising improved environmental performance among SMEs. The FBiH has re-established its awards for SME achievements in the area of environmental protection. Since 2008, as part of Jahorina Fest (the International Festival of Documentary Movies, Tourism and Ecology) the environmental protection funds of the FBiH and the RS give up to 10 awards for the best ecological projects of the year in BiH in different categories, including for SMEs. In addition, in 2017, the Green Centre for Development and Support, an NGO from Tuzla, and the US Embassy in BiH, introduced the BIH Green Awards, which are awarded in four categories: 1) businesses; 2) cities/municipalities; 3) NGOs and foundations; and 4) citizens. The awards go to entities that successfully promote real environmental values and may motivate and encourage the others to do the same (CRP, 2017[50]).

The way forward for Dimension 9

Bosnia and Herzegovina has undertaken some steps to promote and support SME greening. Going forward, the government should consider the following:

- **Implement measures to help SMEs improve their resource efficiency.** Environmental policies specifically designed for SMEs have become part of the SME Strategy in the RS for the first time, but implementation seems to be rather limited. The RS is therefore invited to improve its realisation of the planned measures and ensure regular monitoring. As none of the strategic documents in the FBiH includes SME greening measures, the FBiH should ensure its environmental policies are not detached from SME development. The FBiH government is recommended to introduce SME greening measures in its Environmental Protection Strategy.

- **Increase financial support for SME greening**. Although financial incentives are part of the new SME Strategy in the RS, it is not clear what type of incentives will be used or how they will be financed. It will be essential for the RS to decide what type of financial support to offer SMEs, mobilise the funds accordingly and carefully plan these schemes. Although the FBiH has no such incentives, both entities have very active environmental protection funds though they do not have a particular focus on SMEs. This should be addressed by expanding their scope to also include SMEs through specific financial programmes that would support

SME greening. The government might also consider facilitating SMEs' access to green finance by introducing a dedicated loan guarantee scheme or subsidising interest rates for green project loans.

Internationalisation of SMEs (Dimension 10)

Bosnia and Herzegovina has made marginal improvements in its support for the internationalisation of SMEs. Since the 2016 assessment, its score has increased from 2.31 to 2.57 (Figure 14.1), but remains well below the regional average (Table 14.20). Increased support to export promotion (Sub-dimension 10.1) and global value chains (Sub-dimension 10.2) have contributed the most to BiH's enhanced performance, but a lack of co-ordination among institutions has hindered further progress.

Table 14.20. Scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	BiH	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	4.33	4.86
		Implementation	3.70	4.24
		Monitoring and evaluation	2.19	3.01
		Weighted average	**3.59**	**4.18**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	2.07	3.58
		Implementation	1.86	3.08
		Monitoring and evaluation	1.00	1.76
		Weighted average	**1.75**	**2.97**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	2.71	3.45
		Implementation	1.33	2.26
		Monitoring and evaluation	1.00	1.36
		Weighted average	**1.68**	**2.44**
BiH's overall score for Dimension 10			**2.57**	**3.43**

State of play and key developments

Overall, the internationalisation of SMEs in Bosnia and Herzegovina has increased over the course of this assessment period. For example, SMEs' share of exports increased from 59% to 61% of total exports between 2013 and 2017. In the same period, the value added by SMEs increased by 1.3 percentage points, while the value of exported goods and services, reached 36% of GDP in 2017 compared to 34% of GDP in 2013 (World Bank, 2018[1]).

The cost of border compliance when importing and exporting remained unchanged between 2014 and 2017. Border compliance costs for exports stood at USD 106, between the OECD average of USD 164 and the EU average of USD 85. The costs for importing, at USD 109, were also between the averages of the OECD (USD 137) and the EU (USD 29) (World Bank, 2018[1]).

Export promotion

Bosnia and Herzegovina has improved its support for export promotion, although it still performs below the regional average. One noticeable development over the course of this assessment period has been the 2016 agreement with the European Union on the economy's participation in COSME (2014-20).

Export promotion programmes in the Federation of Bosnia and Herzegovina are linked to the 2016-18 Action Plan for the Realisation of the Project Development of SMEs. In the Republika Srpska, measures for export promotion are planned in the SME Strategy and the Foreign Investment Encouragement Strategy 2016-20. There is no state-level strategic framework for export promotion, although activities are being undertaken.

At the state level, the Export Promotion Chamber of the Foreign Trade Chamber supports the development of export promotion policies with the Ministry of Trade and Economic Relations. It also co-operates with other agencies, such as the Foreign Investment Promotion Agency, regional chambers of commerce, and entity-level ministries. Although it has autonomy over its budget and human resources, it is limited in both staff and funds. The Foreign Trade Chamber provides a narrow range of activities for SMEs, such as support for their participation in international trade fairs, and foreign market research. Its website provides sparse information, and makes no reference to support mechanisms available for SMEs. In terms of financial support, in 2017 the Foreign Trade Chamber allocated grants totalling about EUR 385 000 for the organisation of trade fairs in Bosnia and Herzegovina and about EUR 187 000 for participation in international trade fairs. The Foreign Trade Chamber also acts as European Enterprise Network (EEN) co-ordinator in the Federation Bosnia and Herzegovina.

In the FBiH, the FMRPO provides trade policy information, commercial intelligence, and co-financing support, e.g. for product development support and training to SMEs. Moreover, under its Strengthening the Competitiveness of SMEs scheme, it also provides export promotion support to SMEs. In total, it has allocated about BAM 2 million (EUR 1.02 million) to this scheme for 2017, of which about BAM 300 000 (EUR 153 000) were allocated to export promotion support.

In the RS, RARS acts as the EEN co-ordinator, mostly providing technical support and organising SME promotion events.[25] The RS also has a network of representation offices in Austria, Belgium, Germany, Greece, Israel, Russia, Serbia and the United States, which organise periodic training for domestic SMEs on export opportunities to the relevant country. Meanwhile, the Chamber of Commerce and Industry of RS also supports the annual participation of business entities in domestic and international trade fairs in co-operation with chambers of commerce in the region and abroad, diplomatic and consular missions, the representation offices of the Republika Srpska and international organisations. Previously, the Chamber of Commerce and Industry of RS also supported export promotion activities, while the Ministry of Industry, Energy and Mining provided financial support to improve SME competitiveness and export readiness. However, there have been no recent financial support programmes in the RS. One noticeable development during this assessment period was the establishment of the export information centre web portal (www.izvozinfors.net) in the RS, providing information on export opportunities, legal regulations and support for exporters.

Financial support to SMEs for export promotion activities remains patchy across Bosnia and Herzegovina.

In Bosnia and Herzegovina, trade finance guarantees to SMEs are available through banks, and many banks also offer letters of credit (EIB, 2016[51]). In the RS, trade finance guarantees are available through the Guarantee Fund of Republika Srpska, which offers a repayment period of up to two years for working capital and up to one year for loans for pre-export financing. The guarantee is up to BAM 300 000 (around 153 000) for working capital and has a grace period of up to 12 months for working capital to prepare exports (Guarantee Fund of the Republic of Srpska, 2015[52]).

Integration of SMEs into global value chains

There are programmes to support SME integration into global value chains at the entity level in BiH, especially in the Republika Srpska. The 2016-18 action plan as part of the strategy document Development of Small and Medium Enterprises in the Federation of Bosnia and Herzegovina 2009-2018 includes measures to support projects for developing clusters and value chains, while in the RS measures for cluster support to promote the internationalisation of SMEs are covered in the 2016-20 SME Strategy.

However, efforts to carry these initiatives forward remain fragmented and sporadic, and rely mostly on international donor financing. In the FBiH, despite having proposed programmes, the government did not mobilise a budget for it over the assessed period, citing the low number and quality of applications.

Some programmes to address SME positioning in value chains have been carried out in the past through international donors such as USAID.[26] Various initiatives have fostered cluster development in the RS, all implemented by RARS. RARS current activities to support cluster development primarily involve organising events. Under the auspices of the European Entrepreneurship Network, and in co-operation with Development Agency of Serbia, RARS held two international business meetings for companies and clusters in 2016 and 2017. In the framework of the Public-Private Dialogue and Partnership project in 2016, it also organised meetings with members of the wood processing industry and forestry cluster to improve co-operation, joint promotion and commercialisation. During 2016, RARS provided professional and technical support for strategic planning and project management to the Banja Luka information technology (IT) cluster. In the same year, it also supported the preparation of project proposals, promotion of IT clusters and other areas. RARS has also provided support for the development of clusters in the tourism sector by participating in the meeting of representatives of tourist organisations from several cities across the RS. In August 2016 a meeting was held within the 11th Economy and Tourism Fair in Derventa to share information and examine the possibilities for establishing tourism clusters.[27]

The perceptions of cluster development in Bosnia and Herzegovina improved strongly between 2014 and 2018, as noted in the World Economic Forum's *Global Competitiveness Index* (WEF, 2017[53]).

Promoting the use of e-commerce

E-commerce is currently not well advanced in Bosnia and Herzegovina, though it has significant potential for development. In 2018, the economy had a relatively high percentage of SMEs selling online, at 21% compared to the EU average of 17%[28] (EC, 2018[54]). However, of the six WBT economies for which data was available, Bosnia and Herzegovina had the second lowest figure for Internet purchases by individuals in 2018 (18% of respondents), more than three times lower than the EU average of 60% (EC, 2018[54]). However, the United Nations Conference on Trade and Development's (UNCTAD) B2C E-commerce Index ranked BiH in the top 10 for transition economies in 2018 (UNCTAD, 2018[55]).

Currently, BiH has no institution responsible for promoting e-commerce. The Information Society Strategy 2017-2021, developed by the Ministry of Communications and Transport and adopted in May 2017, encompasses a broad number of areas that could strengthen the operational environment for e-commerce, including digital literacy, Internet access, and increased online services. However, no financial support tools have been developed to accelerate the adoption of information and communications technology (ICT) and digital practices by SMEs (OECD, 2018[7]).

The legal framework for e-commerce remains patchy: an e-payment law has been drafted at the national level, while the RS has adopted e-business legislation that covers e-payments. The RS has a legal framework for consumer protection in e-commerce and has implemented a consumer protection programme. At the state level, the legal framework for consumer protection in e-commerce is out of date, while no framework exists in the FBiH (OECD, 2018[7]).

RS's Agency for the Information Society provides information on legislation and standards relevant for SMEs' engagement in e-commerce on its website; the FBiH has no equivalent resource.

The way forward for Dimension 10

In order to further promote SMEs' access to and competitiveness in international markets, Bosnia and Herzegovina should consider the following policy recommendations:

- **Increase SMEs' uptake of programmes aimed at supporting cluster and local supplier quality.** While both entities and the Foreign Trade Chamber have provided some export promotion support to SMEs, both entities could consider strengthening their efforts to support SMEs' integration into GVCs and clusters by going beyond current support programmes. In particular they should intensify their efforts to proactively facilitate information flows along the entire supply chains for involving SMEs. They should take on the role of knowledge broker concerning the needs of upstream and downstream enterprises, and encourage multinational enterprises to share their road-maps for future product and process development with their SME partners. Moreover, the relevant institutions should provide access to accurate information on market opportunities for subcontracting and potential foreign partners through market reports and databases, trade fairs, exhibitions abroad, and electronic trading platforms or subcontracting exchanges.
- **Strengthen the provision of information on export promotion, cluster and other internationalisation support programmes.** While the RS export information centre is a step in the right direction, Bosnia and Herzegovina could provide information on all state, entity and canton-level programmes in one single web portal. In addition such a portal should provide information on the current legal framework and include step-by-step information about exporting, with access to the forms needed, as well as links to other relevant sources, such as cluster platforms and relevant government agencies.
- **Complete the legislative and strategic framework for e-commerce and develop formal mechanisms to encourage SMEs to adopt e-commerce**. The legislative and strategic framework for e-commerce should aim to harmonise entity and cantonal legislation. Policy makers should ensure that BiH's administrative capacities are sufficient and that investment in ICT infrastructure will enable SMEs to benefit from the possibilities of e-commerce. To this end, policy makers could also implement programmes to facilitate SME uptake of e-commerce opportunities, for example by supporting access to e-commerce websites and portals via co-financing schemes.

Conclusions

Bosnia and Herzegovina's progress in the implementation of the Small Business Act during the assessment period has been good. Nevertheless, in all 12 policy dimensions, it still scores below the regional average.

This picture is primarily a result of the lack of a co-ordinated approach to SME policy planning and implementation across different levels of administration. Better co-ordination could create synergies among different actors, and make better use of resources. There is still no single economic space in place across BiH that is conducive to entrepreneurship and investments.

With a whole-of-government approach, the current initiatives supporting SMEs would be much more impactful, and achieve the desired outcomes.

Notes

[1] The WBT region refers to the six pre-accession Western Balkan economies (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) and Turkey. Unless otherwise specified, reference to the "region" in this publication implies these seven economies.

[2] The sector includes defence, education, social services and other public administration.

[3] For more information about the OECD FDI Regulatory Restrictiveness Index, see OECD (2018[7]).

[4] In EU countries, SME envoys are appointed by the national government to report on the uptake of the SBA and to promote SMEs' interests through government bodies. Such SME envoys do not exist in pre-accession countries.

[5] Smart specialisation originated in the EU as a concept for stimulating innovation-driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services, and ultimately economic growth. Human capital, knowledge dissemination and transfer, as well as support to entrepreneurship, are all key elements in successful implementation of smart specialisation strategies. For more information, please see Chapter 9 on enterprise skills and Box 13.1 in Chapter 10 on innovation policy for SMEs.

[6] Published in the Official Gazette of FBiH No. 29/03, 32/04 and 28/06.

[7] Official Gazette of FBiH 29/03.

[8] The constitutional court has addressed the issue back to parliament to find "proper" resolution because of the contradiction between these two articles. Article 33's case is about preferential payment of eight salaries of workers before all other unsecured creditors. Article 40's case is about the absolute priority of payment to bankruptcy case proceedings' costs before payment of any other creditor.

[9] https://www.paragraf.ba/propisi/fbih/zakon-o-stecajnom-postupku.html.

[10] Official Gazette of the RS 16/16.

[11] Official Gazette of BDBiH 1/02.

[12] For more information: http://www.preduzetnickiportalsrpske.net/danubechance2-0/ and http://www.interreg-danube.eu/approved-projects/danubechance2-0.

[13] https://ekonsultacije.gov.ba/.

[14] Official Gazette RS No, 106/15.

[15] Idem.

[16] FBiH Government: The Law on Companies in the Federation of BiH, "Official Gazette of FBiH: https://advokat-prnjavorac.com/zakoni/Zakon_o_privrednim_drustvima_FBiH.pdf.

[17] Law on value added tax in BiH - Official gazette BiH No. 100/2008.

[18] https://advokat-prnjavorac.com/zakoni/Zakon-o-porezu-na-dohodak-Republike-Srpske.pdf.

[19] Unincorporated businesses refer to small entrepreneurs as defined in Article 21 of the Law on Income Tax (Official Gazette of the Republic of Srpska, No. 60/15). Businesses need to meet three conditions: 1) no more than 3 employees (including the owner); 2) no partnerships; and 3) annual income of less than BAM 50 000 (EUR 250 000).

[20] http://www.uplusu.ba/.

[21] The European Union adopts legislation (EU Directives) that defines essential requirements in relation to safety and other aspects of public interest which should be satisfied by products and services being sold in the Single Market.

[22] State institutions have the competence to implement a quality infrastructure system in Brčko District.

23 These include 66 testing laboratories, 2 medical laboratories, 8 calibration laboratories, 2 product certification bodies and 38 inspection bodies.

[24] BiH Economic Reform Programme 2017-2019). http://www.dep.gov.ba/naslovna/Archive.aspx?pageIndex=1&langTag=en-US

[25] In addition to the agency as co-ordinator, members of the European Entrepreneurship Network of the Republic of Srpska include the Chamber of Commerce of the Republic of Srpska, the University of Banja Luka, the University of East Sarajevo and the Innovation Center Banja Luka.

[26] Fostering Interventions for Rapid Market Advancements was a USD 21 million activity financed jointly by USAID and the Swedish International Development Cooperation Agency to support SMEs in the targeted sectors of wood processing, tourism and light manufacturing/metal processing in BiH. The objective was to increase sustainable economic growth as measured by increased sales, exports, sustainable employment and access to finance. The project ran from September 2009 to May 2015 and the activity was implemented by a consortium led by Cardno Emerging Markets USA, Ltd.

[27] Representatives from Doboj, Brod, Teslic, Modriče, Šamac, Kozarska Dubica and Laktaši attended. The meeting primarily served to provide legal information on establishing clusters.

[28] The Eurostat indicator refers to SMEs, excluding in the financial sector, employing between 10 and 249 employees.

References

Analitika (2018), *Povećan broj aplikacija zahvaljujući "Biznis karavanu" [Increased number of applications thanks to "Business Caravan"]*, Analitika website, https://portalanalitika.me/clanak/303651/povecan-broj-aplikacija-zahvaljujuci-biznis-karavanu. [57]

Bacigalupo, M. et al. (2016), *EntreComp: The Entrepreneurship Competence Framework*, European Commission, Luxembourg, http://publications.jrc.ec.europa.eu/repository/bitstream/JRC101581/lfna27939enn.pdf. [26]

BiH (2018), *Economic Reform Programme (2018-2020)*, Bosnia and Herzegovina, http://www.dep.gov.ba/naslovna/?id=1894. [10]

BiH (2017), *Economic Reform Programme 2017-2019*, Bosnia and Herzegovina, Sarajevo, http://www.dep.gov.ba/naslovna/?id=1810. [29]

BiH Council of Ministers Directorate for Economic Planning (2015), *Strategic Framework for BiH*, BiH Council of Ministers Directorate for Economic Planning, Sarajevo, http://www.dep.gov.ba/naslovna/?id=1706. [28]

Brčko District (2011), "Zakon o preduzećima Brčko distrikta BiH: prečišćen tekst (Law on enterprises Brčko District of BiH (consolidated text)", *Official Gazette of Brčko District* 01. 3-05-118/11, http://www.secbdbih.org/files/legislativa/zakoni/ba/64_sjednica_zakon_o_preduzecima_bd_bih_preciscen.pdf. [24]

BusinessInfo (2018), *BusinessInfo.cz website*, BusinessInfo.cz, https://www.businessinfo.cz/. [69]

Carretero, S., R. Vuorikari and Y. Punie (2018), *DigComp2.1: The Digital Competence Framework for Citizens*, European Commission, http://publications.jrc.ec.europa.eu/repository/bitstream/JRC106281/web-digcomp2.1pdf_(online).pdf. [27]

CDM (2017), *Biznis karavan u Plužinama: Zajednički unaprijediti infrastrukturu [Business caravan in Plužine: Jointly improve the infrastructure]*, Cafe del Montenegro website, https://www.cdm.me/ekonomija/biznis-karavan-u-pluzinama-zajednicki-unaprijediti-infrastrukturu/. [58]

Center for Social Innovation (2018), *Center for Social Innovation*, https://www.zsi.at/de/object/project/4947. [33]

Challenge to Change (2019), *About Project*, Challenge to Change website, https://c2c.ba/en/project/information/1 (accessed on 21 December 2018). [48]

Chamber of Commerce and Industry of Serbia (2018), *Privreda Srbije*, Chamber of Commerce and Industry of Serbia website, http://www.pks.rs/PrivredaSrbije.aspx. [60]

Council of Ministers (2018), *Council of Ministers of Bosnia and Herzegovina Holds its 142nd Session*, Council of Ministers of Bosnia and Herzegovina, http://www.vijeceministara.gov.ba/saopstenja/sjednice/saopstenja_sa_sjednica/default.aspx?id=28373&langTag=en-US (accessed on 7 November 2018). [39]

Council of the European Union (2018), *Council Recommendation on Key Competences for Lifelong Learning*, Council of the European Union, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018H0604(01)&rid=7. [25]

CRP (2017), *BIH Green Awards 2017*, Centar za Razvoj i Podršku website, http://crp.org.ba/bih-green-awards-2017/?lang=en (accessed on 7 November 2018). [50]

Cybernetica (2018), *X-Road*, Cybernetica website, https://cyber.ee/en/e-government/x-road/ (accessed on September 2018). [42]

Delegation of the European Union to Bosnia and Herzegovina (2018), *BIH and the EU*, Delegation of the European Union to Bosnia and Herzegovina website, http://europa.ba/?page_id=480 (accessed on 6 November 2018). [17]

Early Warning Europe (2018), *Early Warning Europe website*, Early Warning Europe, https://www.earlywarningeurope.eu/. [37]

EBRD (2018), *Transition Report 2017-18: Sustaining Growth*, European Bank for Reconstruction and Development, http://2017.tr-ebrd.com/countries/. [8]

EBRD (2014), *Commercial Laws of Slovenia: An Assessment by the EBRD*, European Bank for Reconstruction and Development, https://www.ebrd.com/documents/legal-reform/slovenia-country-law-assessment.pdf. [34]

EC (2018), *A Credible Enlargement Perspective for and Enhanced EU Engagement with the Western Balkans*, European Commission, https://eeas.europa.eu/regions/western-balkans/39711/credible-enlargement-perspective-and-enhanced-eu-engagement-western-balkans_en (accessed on 10 October 2018). [63]

EC (2018), “Bosnia and Herzegovina 2018 report”, *Commission Staff Working Document*, No. SWD(2018) 155 final, European Commission, Strasbourg, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-bosnia-and-herzegovina-report.pdf. [16]

EC (2018), “Economic Reform Programme 2018-2020 of Bosnia and Herzegovina: Commission assessment”, *Commission Staff Working Document*, No. SWD(2018) 136 final, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_bosnia_and_herzegovina.pdf. [5]

EC (2018), “Economic Reform Programme of Kosovo*(2018-2020): Commission assessment”, *Commission Staff Working Document*, No. SWD(2018) 133 final, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_kosovo.pdf (accessed on 13 September 2018). [61]

EC (2018), *Economic Reform Programmes: Western Balkans and Turkey*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf (accessed on 15 October 2018). [13]

EC (2018), "EU candidate countries' & potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", *Technical Paper*, No. 028, European Commission, Brussles, https://ec.europa.eu/info/sites/info/files/economy-finance/tp028_en.pdf. [4]

EC (2018), *Eurostat (database)*, https://ec.europa.eu/eurostat/data/database (accessed on 14 September 2018). [54]

EC (2018), *Factograph: Bosnia and Herzegovina on its European Path*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near_factograph_bosnia_and_herzegovina.pdf (accessed on 15 October 2018). [19]

EC (2018), *Factograph: Kosovo on its European Path*, European Commission, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near_factograph_kosovo.pdf (accessed on 10 October 2018). [64]

EC (2017), *2017 SBA Fact Sheet: Serbia*, European Commission, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/serbia_sba_fs_2017.pdf. [62]

EC (2014), "Commission Recommendation of 12 March 2014 on a new approach to business failure and insolvency", *Official Journal of the European Union*, Vol. 74/65, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014H0135&from=EN. [31]

EC (2013), *Entrepreneurship 2020 Action Plan: Reigniting the Entrepreneurial Spirit in Europe*, European Commission, Brussels, https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0795:FIN:en:PDF. [30]

EIB (2018), *The European Investment Bank in the Western Balkans*, European Investment Bank, Luxembourg, http://www.eib.org/attachments/country/the_eib_in_the_western_balkans_en.pdf. [65]

EIB (2016), *Bosnia and Herzegovina: Assessment of financing needs of SMEs in the Western Balkans countries*, European Investment Bank, Luxembourg, http://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_bosnia_herzegovina_en.pdf. [51]

EPALE (2017), *Održan "Biznis karavan" u Budvi, vodič za preduzetnike, mala i srednja preduzeća [Held "Business Caravan" in Budva, a guide for entrepreneurs, small and medium enterprises]*, European Commission, https://ec.europa.eu/epale/fr/node/41884. [59]

Eurostat (2018), *Eurostat (database)*, European Commission, https://ec.europa.eu/eurostat/web/national-accounts/data/database. [9]

FBIH (2006), *Zakon o poticanju malog gospodarstva (Law on fostering small business development)*, Official Gazette of the Federation of Bosnia and Heregovina, http://www.fmrpo.gov.ba/dokumenti/zakoni/. [21]

FBiH (2009), *Zakon o računovodstvu i reviziji u Federaciji Bosne i Hercegovine (Law on accounting and auditing)*, Parliament of the Federation of Bosnia and Herzegovina, https://advokat-prnjavorac.com/zakoni/Zakon_o_racunovodstvu_i_reviziji_FBiH.pdf. [20]

Guarantee Fund of the Republic of Srpska (2015), *Guarantee-Credit Line for Export Support*, Guarantee Fund of the Republic of Srpska website, http://garantnifondrs.org/language/en/%D0%B3%D0%B0%D1%80%D0%B0%D0%BD%D1%82%D0%BD%D0%BE-%D0%BA%D1%80%D0%B5%D0%B4%D0%B8%D1%82%D0%BD%D0%B0-%D0%BB%D0%B8%D0%BD%D0%B8%D1%98%D0%B0-%D0%B7%D0%B0-%D0%BF%D0%BE%D0%B4%D1%80%D1%88%D0%BA%D1%83-%D0%B8-3/?lang=en (accessed on 6 November 2018). [52]

IFC (2018), *In Bosnia and Herzegovina, a New Law Helps Firms Bounce Back*, https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news%20and%20events/news/impact-stories/bosnia-and-herzegovina-new-law-helps-firms (accessed on 1 February 2019). [32]

ILO (2018), *ILOSTAT*, International Labour Organization, Geneva, http://www.ilo.org/ilostat. [2]

IMF (2018), *World Economic Outlook Database*, International Monetary Fund, http://data.imf.org/?sk=4C514D48-B6BA-49ED-8AB9-52B0C1A0179B&sId=1409151240976. [66]

IMF (2016), *Financial Access Survey 2016*, International Monetary Fund. [46]

IMF (2015), "Republic of Slovenia: Selected issues", *IMF Country Report*, No. 15/42, International Monetary Fund, https://www.imf.org/external/pubs/ft/scr/2015/cr1542.pdf. [35]

Margetts, H. (2017), *Government as a Platform: What can Estonia Show the World?*, University of Oxford, https://www.politics.ox.ac.uk/materials/publications/16061/government-as-a-platform.pdf. [56]

Ministry of Justice (2018), *Izveštaj o provođenju pravila za konsultacije u izradi pravnih propisa za 2017 godinu [Report on the Implementation of the Rules for Consultations in the Development of Legal Regulations for 2017]*, Ministry of Justice, Bosnia and Herzegovina, http://www.mpr.gov.ba/organizacija_nadleznosti/planiranja_koordinacija/strateska_planiranja/strategija/default.aspx?id=8191&langTag=bs-BA. [40]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, Competitiveness and Private Sector Development, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264298576-en. [7]

OECD (2017), *FDI Regulatory Restrictiveness Index (database)*, OECD, http://www.oecd.org/investment/fdiindex.htm. [11]

OECD (2017), *Monitoring Report: The Principles of Public Administration: Bosnia and Herzegovina 2017*, OECD/SIGMA, http://www.sigmaweb.org/publications/Monitoring-Report-2017-Bosnia-and-Herzegovina.pdf. [38]

OECD (2016), *Competitiveness in South East Europe: A Policy Outlook*, Competitiveness and Private Sector Development, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264250529-en. [67]

OECD (2010), *Innovation vouchers*, http://www.oecd.org/innovation/policyplatform. [49]

RAS (2017), *Create Life: Public Call for the Implementation of Standardised Mentoring Service*, Development Agency of Serbia, http://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-the-implementation-of-standardised-mentoring-service (accessed on 31 August 2018). [44]

RS (2015), *Zakon o računovodstvu i reviziji Republike Srpske (Law on accounting and auditing)*, Republika Srpska, https://advokat-prnjavorac.com/zakoni/Zakon-o-racunovodstvu-i-reviziji-Republike-Srpske.pdf. [23]

RS (2013), *Zakon o razvoju malih i srednjih preduzeća (Law on SME development)*, Republika Srpska, https://advokat-prnjavorac.com/zakoni/Zakon_o_razvoju_malih_i_srednjih_preduzeca_RS.pdf. [22]

Transparency International (2019), *Corruption Perceptions Index 2018*, Transparency International, https://www.transparency.org/cpi2018. [12]

UNCTAD (2018), "UNCTAD B2C E-Commerce Index 2018 - Focus on Africa: UNCTAD Technical Notes on ICT for Development N°12"*, UNCTAD Technical Notes on ICT for Development*, No. 12, United Nations Conference on Trade and Development, Geneva, https://globalfindex.worldbank.org. (accessed on 10 January 2019). [55]

Vijesti (2017), *Babić: Biznis karavan daje rezultate [Babic: Business Caravan Gives Results]*, Vijesti Online, http://www.vijesti.me/vijesti/babic-biznis-karavan-daje-rezultat. [36]

Vijesti (2017), *Babić: Biznis karavan daje rezultate [Babić: Business Caravan gives results]*, Vijesti Online, https://www.cdm.me/ekonomija/biznis-karavan-u-pluzinama-zajednicki-unaprijediti-infrastrukturu/. [41]

WB EDIF (2018), *WBEDIF in Bosnia and Herzegovina*, Western Balkans Enterprise Development and Innovation Facility, http://www.wbedif.eu/wbedif-in-your-country/bosnia-and-herzegovina/. [18]

WEF (2017), *The Global Competitiveness Index dataset 2007-2017*, World Economic Forum, Geneva, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/ (accessed on 24 July 2018). [53]

WEF (2017), *The Global Competitiveness Report: 2017-2018*, World Economic Forum, Geneva, http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf (accessed on 6 November 2018). [47]

World Bank (2018), *Business Reforms in Bosnia and Herzegovina*, World Bank, http://www.doingbusiness.org/en/reforms/overview/economy/bosnia-and-herzegovina (accessed on 5 November 2018). [15]

World Bank (2018), *Doing Business 2019: Training for Reform*, World Bank Group, https://openknowledge.worldbank.org/handle/10986/30438. [14]

World Bank (2018), *Ease of Doing Business in: Bosnia and Herzegovina*, World Bank Doing Business website, http://www.doingbusiness.org/en/data/exploreeconomies/bosnia-and-herzegovina. [45]

World Bank (2018), "Higher but fragile growth", *Western Balkans Regular Economic Report*, No. 14, World Bank, http://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report. [3]

World Bank (2018), *World Development Indicators: Bosnia and Herzegovina (database)*, World Bank, http://databank.worldbank.org/data/reports.aspx?source=2&country=BIH. [1]

World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*, World Bank, http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf. [68]

World Bank (2017), "Job creation picks up", *Western Balkans Regular Economic Report*, No. 12, World Bank, https://openknowledge.worldbank.org/bitstream/handle/10986/28883/121417-WP-PUBLIC.pdf. [6]

X-Road (2018), *Factsheet*, X-Road website, https://www.x-tee.ee/factsheets/EE/#eng. [43]

Further reading

EC (2013), *Entrepreneurship Action Plan: Reigniting the Entrepreneurial Spirit in Europe,* European Commission, Brussels, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A52012DC0795.

EC (2018), *Proposal for a Council Recommendation on Key Competences for Lifelong Learning*, European Commission, Brussels, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018DC0024.

OECD et al. (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/9789264254473-en.

Chapter 15. Kosovo: Small Business Act profile

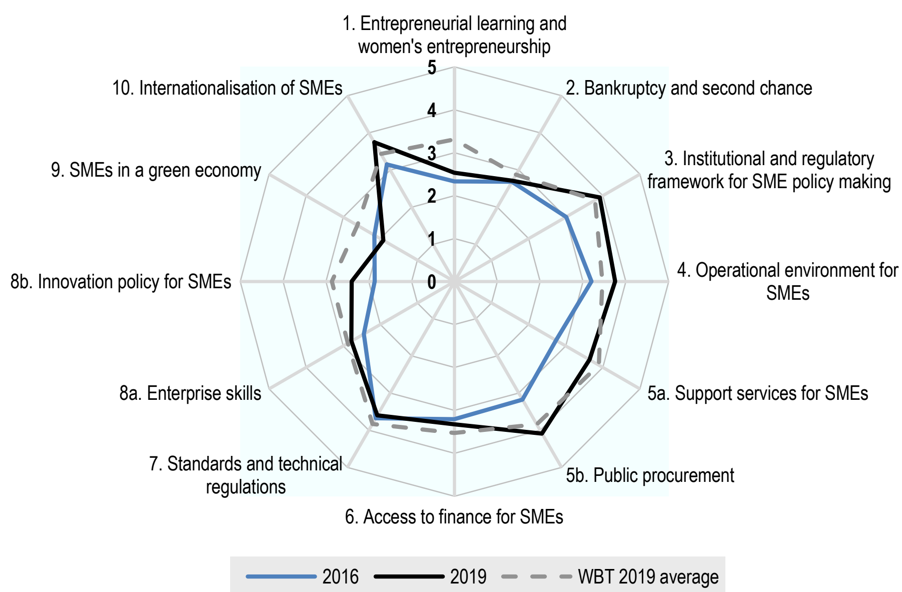
This chapter covers in depth the progress made by Kosovo in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Kosovo's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the Kosovar economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

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

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 15.1. Small Business Act scores for Kosovo (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (Entrepreneurial learning and women's entrepreneurship) and Dimension 8a (Enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Kosovo has made good progress in implementing the Small Business Act since publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 15.1). The policy frameworks and governing mechanisms, hastily established in the early 2000s, have been significantly strengthened, and a number of regulations have been brought into line with those of the EU. All of this has resulted in better regulatory conditions that come closer to levelling the playing field for SMEs and for entrepreneurship development. The main achievements that have helped Kosovo improve its performance in this assessment can be summarised as follows:

Regulatory barriers to entrepreneurship continue to decline sharply. The establishment of one-stop shops under the Kosovo Business Registration Agency was a milestone in reducing red tape and lowering barriers to entry for Kosovar entrepreneurs. Company registration time has been reduced by almost 50% within three years to 5.5 days in 2018, and the number of procedures required to start a business has been brought down to three – the lowest for the assessed economies.

The Kosovo Credit Guarantee Fund (KCGF) is boosting demand for loans among SMEs. Since its establishment in 2016, the KCGF has already developed a portfolio of around 1 550 loans, adding up to a total loan amount of EUR 59 million. By also collaborating with microfinance institutions and non-bank financial institutions – albeit currently at low levels – the fund has the potential to improve the economic sustainability of these institutions, and ultimately to facilitate micro enterprises' access to credit.

The institutional framework has become conducive to fostering innovation in enterprises. The establishment of the Ministry for Innovation and Entrepreneurship in 2017 has underpinned the institutional framework for streamlining innovation in policy making. Although its operational portfolio is still narrow, the ministry now has significant resources for rolling out new instruments to foster innovation and establishing innovation centres across the economy.

The legal framework for insolvency proceedings is stronger. The new laws on bankruptcy and business organisations, adopted in 2016 and 2018 respectively, now incorporate many features left out by the previous legislation, laying the basis for efficient insolvency procedures. Proceedings involving SME debtors are now treated as reorganisation cases which require a "monitor" to be appointed to assist SMEs in their reorganisation plans.

SMEs have easy access to the public procurement market. Thanks to a solid institutional and regulatory framework, a number of solutions have been implemented that theoretically facilitate SMEs' access to public procurement. The documentation requirements have been streamlined further, and a cap has been put on the turnover required to participate in tender procedures. However, it remains to be seen to what extent SMEs' share of the total value of public contracts awarded will be affected by these improvements.

Priority areas

Despite the improvements to the business environment brought about by effective regulation, there are a number of areas in which Kosovo still needs to step up its efforts. This report identifies seven priority areas for intensified activities:

- **Ensure sufficient resources are allocated to implement the Private Sector Development Strategy.** Scarce funds earmarked for the measures planned under the previous private sector development strategies meant that donor-funded initiatives usually filled the gap. Although this is not a bad thing in itself, the tacit expectation that donor funds will step in creates uncertainty around implementation, and contributes to delays. The over-involvement of various donors may also shift accountability for the strategy away from the government, diluting public priorities.
- **Improve SME uptake of business support services by redesigning the existing schemes.** Given the low number of applications from SMEs, the Kosovo Investment and Enterprise Support Agency (KIESA) should consider redesigning its application and co-financing procedures for its support services. It could start by matching its co-financing support to enterprise size. Moreover, it could reconsider the practice of only reimbursing beneficiaries after projects are completed as this might deter resource-poor micro and small companies from applying altogether.
- **Enhance SMEs' access to finance by scaling up the KCGF and undertaking legislative reforms to broaden the range of alternative financial instruments**. Scaling up the KCGF further, and reviewing its overall performance – including its attractiveness to banks – would improve the external finance landscape for SMEs. Moreover, introducing the planned factoring law would improve the transparency and legal enforceability of factoring services, and be instrumental in improving SMEs' cash flow management.

- **Develop the legal framework and necessary infrastructure to stimulate e-commerce.** A comprehensive legal framework to support the regulated use of e-commerce still needs to be developed. International electronic payments cannot be made effectively because of SMEs' limited access to third-party e-payment service providers linked to Kosovar banks. The logistics and transport infrastructure needed for e-commerce to flourish is also inadequate.
- **Focus on providing guidance to SMEs in adopting environmentally sound practices**. SMEs need to be nudged to adopt resource efficiency measures. To achieve this, activities need to be designed that raise SMEs' awareness of the fact that resource efficiency offers high returns for low-cost investments. A relevant public agency such as KIESA or the Kosovo Environment Protection Agency (KEPA) could provide direct advice to SMEs on saving energy, material and water costs.
- **Step up efforts to boost women's entrepreneurship.** Over 80% of Kosovar women do not participate in the labour market, and fewer than 10% of the economy's businesses are owned by women. Tailored policies and targeted measures are needed to address the challenges experienced by women entrepreneurs, in particular concerning asset ownership, access to finance, skills and entrepreneurship networks. Establishing an inter-ministerial co-ordination mechanism could be the first step towards unleashing the potential women's contributions could make to the economy.
- **Enhance SMEs' awareness of the newly adopted EU standards**. With 650 EU standards adopted in 2017 alone, SMEs in Kosovo struggle to keep up with the new standards they have to comply with. Organising workshops and preparing information materials on the new standards and their application should be a priority for the Kosovo Standardisation Agency. However, the agency's outreach first needs to be increased by allocating more human and financial resources.

Economic context and role of SMEs

Economic overview

Kosovo is a lower-middle income economy and one of only four economies in Europe to grow every year since the onset of the global financial crisis in 2008. With a population of 1.8 million, Kosovo is the second smallest economy in the Western Balkans after Montenegro.

The Kosovar economy has maintained consistent growth in recent years (Table 15.1). Real growth in gross domestic product (GDP) averaged about 3.2% per year[1] over 2013-17: a noteworthy performance compared to other economies in the region (EC, 2018[1]). Despite recording positive growth rates, however, Kosovo was still the second poorest economy in Europe in 2017, after Moldova, with an average GDP per capita of USD 3 894.

Table 15.1. Kosovo: Main macroeconomic indicators (2013-18)

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth	% year-on-year	3.4	1.2	4.1	3.4	4.2	3.8**
Inflation	% average	1.8	0.4	-0.5	0.3	1.5	0.3**
Government balance	% of GDP	-3.1	-2.2	-2.0	-1.2	-0.8	..
Current account balance	% of GDP	-3.4	-6.9	-8.6	-8.3	-6.0	-6.5**
Exports of goods and services[1]	% of GDP	21.9	22.5	21.9	22.2	27.0	27.5**
Imports of goods and services	% of GDP	49.6	51.2	50.4	50.8	53.8	54.8**
Net FDI	% of GDP	5.3	2.7	5.3	3.6	4.5	3.7**
External debt	% of GDP	30.2	31.2	33.3	33.2	32.6	..
Gross international reserves	Ratio of 12 months imports of goods moving average	7.4	6.0	5.9	5.0	4.9	4.9**
Unemployment	% of total active population	30.00	35.3	32.9	27.5	30.5	27.9**
National GDP	Billion euros	5.3	5.6	5.8	6.1	6.4	..

Note: *projection; **average of 1st and 2nd quarter.
Sources: EC (2018[2]), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", https://ec.europa.eu/info/sites/info/files/economy-finance/tp028_en.pdf;
EBRD (2018[3]), *Transition Report 2018-2019: Work in Transition*, https://2018.tr-ebrd.com/countries/#
Eurostat (2018[4]), *Eurostat (database)*, https://ec.europa.eu/eurostat/web/national-accounts/data/database.

The non-tradable sectors dominate output and employment in Kosovo. Services are the largest sector in the economy, with a share of value added of 54% of GDP over 2009-17. Industry is small by regional standards, at 16.8% of GDP, of which manufacturing accounts for about 10%. The agricultural sector remains relatively large, at 11% of GDP (World Bank, 2016[5]).

The economy is characterised by limited regional and global economic integration, and a high dependence on remittances from the Kosovar diaspora. Indeed, remittances are an important source of income for many households, and accounted for 12% of GDP in 2017 (EC, 2018[6]). Yet, private consumption remains the main driver of growth (EC, 2018[1]). However, although remittance inflows remain crucial for offsetting Kosovo's trade deficit in goods and services (EC, 2018[7]), they are rarely directed at investment and potentially discourage participation in the labour market (UNDP, 2016[8]).

Despite being among the economies most open to foreign direct investment (FDI) according to the *OECD FDI Regulatory Restrictiveness Index*, the inflows of FDI remain limited, averaging 4.2% of GDP over 2013-17, and mainly originate from the large Kosovo diaspora (OECD, 2017[9]; OECD, 2018[10]). The sectoral distribution of FDI remains dominated by non-productive sectors, namely real estate and construction (EC, 2018[6]; OECD, 2018[10]), which has limited positive impact on the efficiency of Kosovar firms. Put differently, the current FDI composition does not allow for significant spillover effects.

Whereas its exports of goods and services represented only 26.5% of GDP in 2017, Kosovo relies heavily on imports, which accounted for 53.8% of GDP in 2017 (EC, 2018[1]). These are expected to increase further due to sizeable infrastructure projects. In addition to being highly dependent on imported inputs for industrial production, Kosovo is also one of the largest per capita importers of food in Europe. Meanwhile, its export basket is among the least diverse in the region, relying overwhelmingly on low value-added goods, such as metals, minerals and other raw materials (EC, 2018[1]). Coupled with high consumption, low exports yield a negative current account balance for the economy. With services being the fastest-growing exports sector – contributing 57.3% of gross value added in 2017 – these are helping reduce the considerable gap from trade in goods and mitigating external imbalances. For example, the current account deficit dropped from 9.1% in 2016 to 5.9% in 2017 (EC, 2018[1]; EC, 2018[7]). Yet the trade deficit remains high despite strong export growth, reflecting the economy’s weak production base (EC, 2018[7]). While the EU is the destination of 23% of Kosovo’s exports, it accounts for about 42% of Kosovo’s imports (Sanfey and Milatovic, 2018[11]) and remains the economy’s largest trade partner, representing 41% of overall trade in 2017 (EC, 2018[7]).

Having unilaterally adopted the euro, and as a small economy markedly dependent on imports, Kosovo is highly sensitive to price developments in key trade partners. It is also vulnerable to fluctuations in global commodity prices, particularly food and energy. Indeed, mounting food and fuel prices in 2017 pushed inflation up to 1.5%, compared to 0.3% in 2016, and -0.5% in 2015. Nevertheless, Kosovo currently enjoys significant price stability thanks to the persistently low inflation in the Eurozone, the fall in global commodity prices and an exchange rate that is immovable in relation to the euro. Considering the projected acceleration of GDP growth, and higher inflation projections for EU Member States and other economies in the region, the government’s expectation of subdued inflation (averaging 1.2% between 2018 and 2020) might be an underestimate (EC, 2018[1]).

In the absence of monetary policy tools, fiscal policy remains Kosovo’s principal macroeconomic policy instrument. In efforts to reduce its fiscal deficit, Kosovo has consolidated its rules-based fiscal framework and adjusted its deficit rule (2% of GDP) and the debt ceiling (40% of GDP). Despite shortcomings in the implementation of some important reforms, and challenges posed by its costly war veterans benefits scheme, strong economic growth and improved revenue collection brought about revenue growth of 9.4% in 2016 and 5.3% in 2017 (EC, 2018[6]). In 2017, the fiscal deficit was 1.4% and the overall public debt level was 16.8% of GDP. Though relatively small, the latter has been on the rise, and is projected to reach 21% of GDP by 2020 (EC, 2018[1]). On the other hand, shrinking the size of the informal sector and combatting corruption remain key policy priorities as they continue to cause significant fiscal losses.

Dominated by the banking sector, Kosovo's financial sector is stable, liquid and profitable: in 2017, the easing of credit standards and lower loan interest rates combined with robust demand from both households and businesses to generate credit growth of 11.5%, the strongest since 2011 (EC, 2018[1]). However, Kosovo's 90% foreign-owned banking sector remains under-utilised, mainly due to poorly developed mortgage lending and widespread informality (Sanfey and Milatovic, 2018[11]; EC, 2018[1]). Notably, compared to other Western Balkan economies with persistently high levels of non-performing loans (NPLs), Kosovo has kept NPLs at the remarkably low rate of 3.1%.

Despite stable growth in recent years, Kosovo has the highest unemployment (32.9%) and the lowest labour force participation rate (37.8%), not only in the Western Balkans and Turkey (WBT) region,[2] but also lagging behind the EU (66.8%) and OECD averages (67%) (EC, 2018[7]; EC, 2018[1]). Women, youth and unskilled workers are particularly affected, but the structural problems in the labour market are pervasive for the entire Kosovar population. According to International Labour Organization data, the employment rate in 2016 was 43% for men and only 12.7% for women (ILO, 2018[12]). Kosovo also has a very high youth unemployment rate (15-24 years). It hit an all-time high of 61% in 2014, but fell to 52.4% in 2016. The youth labour force participation rate for men is 28.8% compared to 12.7% for women. The severe youth unemployment problem and the high rate of unemployment among university degree holders reveal the misalignment between education system outcomes and labour market needs, calling for more active labour market policies (EC, 2018[6]). Overall, the Kosovar labour market places a high demand on technical qualifications, but the vocational education and training (VET) system fails to deliver these in sufficient quantity and quality (EC, 2018[1]). Progress is yet to be made in addressing the skills gaps in the labour market.

Improving the education system is a key policy challenge for the economy, as access to good-quality education remains problematic at all levels (UNDP, 2016[8]). There is also a significant gender gap in education, particularly in higher education attendance (EC, 2018[7]). In addition, Kosovo is the worst performer among WBT economies in the latest (2015) Programme for International Student Assessment (PISA) (OECD, 2017[13]).

Business environment trends

The business environment in Kosovo has improved since the last assessment, mainly due to the simplification of business registration procedures and the improved legal framework which has strengthened the legal rights of borrowers and lenders. In addition, the new law on strategic investments – designed to simplify the investment process for investors and boost FDI – has helped in cutting red tape and increasing transparency.

Kosovo is considered to be doing better than other economies in the region when it comes to state-owned enterprises (SOEs). This is mainly because the government subjects parts of the SOE sector to specific laws, which impose additional reporting requirements. Kosovo has enacted important reforms, especially in its corporate governance code for SOEs, and has established an inter-ministerial recommendation committee to avoid the politicisation of board member nominations (OECD, 2018[10]).

Despite these positive developments, the business environment in Kosovo continues to be hampered by a number of significant challenges including corruption, the informal economy and an unreliable supply of energy, as identified in Kosovo's Economic Reform Programme 2017-19 (Box 13.1). The fight against corruption has been among the priorities of the international community and, more recently, of the Kosovar government. The progress made towards corruption-proofing legislation remains poor. As result, in

2018, Kosovo was ranked 93th among 180 economies in the *Corruption Perceptions Index* of Transparency International – the third worst position in the WBT region (OECD, 2018[10]; Transparency International, 2018[14]).

Box 15.1. EU Economic Reform Programmes

Since 2015, all EU candidate countries and potential candidates are obliged to prepare Economic Reform Programmes (ERPs). ERPs prepare the enlargement countries for their future participation in the EU's economic policy co-ordination procedures. They also play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation.

The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda. The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets
- social inclusion, poverty reduction and equal opportunities.

The European Commission and the European Central Bank then assess these seven programmes. This forms the basis for a multilateral economic policy dialogue involving the enlargement countries, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include country-specific policy guidance reflecting the most pressing economic reform needs.

The findings of the Small Business Act assessment for the Western Balkans and Turkey provide the analytical background and guidance to the seven EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

Source: EC (2018[15]), Economic Reform Programmes: Western Balkans and Turkey, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf.

Kosovo's informal economy is estimated to constitute 31% of its GDP. Widespread informality leads to unfair competition, hindering access to finance and the ability of registered businesses to grow and innovate (EC, 2018[7]) Moreover, it reduces wages and purchasing power, shrinks the economy's tax base and ultimately the state budget.

Another constraint on Kosovo's competitiveness is the inadequate and unreliable supply of energy. Kosovar firms face the most frequent power outages in the region, and there is substantial room for energy efficiency improvement (EC, 2018[7]). Kosovo businesses incur about EUR 296 million annually in additional costs due to irregular energy supplies

(USAID, 2015[16]). To address this issue, the government has announced the construction of a new 500 MW power plant by 2023 aimed at strengthening growth in the medium term and supporting the business environment by minimising power cuts. However, an outdated production capacity, a non-liberalised energy market and a tariff system that does not reflect real costs remain significant issues, among others, in Kosovo's energy sector (EC, 2018[1]).

All in all, Kosovo is among the top ten economies showing the biggest progress in the World Bank's 2018 *Doing Business Report*, having moved up 35 places since 2015, ranking it 40th out of 190 economies (World Bank, 2017[17]). The reforms that are making it easier to conduct business are highlighted in Table 15.2.

Table 15.2. Recent business reforms in Kosovo

	Reforms making it easier to do business	Reforms making it more difficult to do business
Doing Business 2019	Dealing with **construction permits** has become easier by streamlining the inspection system through the use of an in-house engineer. **Paying taxes** has also been made easier by allowing taxpayers to claim a value-added tax (VAT) refund on the standard VAT return form, by streamlining the VAT audit process and by eliminating the requirement to report purchases over EUR 500. **Exporting** has been made easier by streamlining customs clearance at the border.	None
Doing Business 2018	**Starting a business** became easier by simplifying the process of registering employees. **Access to credit** was strengthened by adopting a new law that establishes clear priority rules inside bankruptcy for secured creditors and clear grounds for relief from a stay for secured creditors in reorganisation procedures. Kosovo also facilitated **resolving insolvency** by introducing a legal framework for corporate insolvency, making liquidation and reorganisation procedures available to debtors and creditors.	None
Doing Business 2017	Kosovo simplified **paying taxes** by introducing an online system for filing and paying VAT and social security contributions, as well as making paying taxes less costly by allowing more types of expenses to be deducted from the calculation of corporate incomes tax. Moreover, **trading across borders** was facilitated by improving the automated customs data management system, streamlining customs clearance processes and implementing the Albania-Kosovo Transit Corridor.	None

Note: Only reforms which have had either a positive or a negative impact on conducting business were considered. Source: World Bank (2018[18]), Doing Business 2019: Training for Reform, www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf.

EU accession process

Kosovo has been a potential EU candidate since 2008, and the co-operation between the EU and Kosovo picked up speed following the Stabilisation and Association Agreement (SAA), which entered into force in April 2016. This provides a comprehensive framework for closer political dialogue between the EU and Kosovo, and establishes a free trade area. Subsequently, the government adopted the National Programme for Implementation of the Stabilisation and Association, which is currently the key national policy document for EU accession. This programme sets out a comprehensive mid-term framework of all the reforms required to fulfil the obligations emerging from the SAA, namely the measures and priorities required for gradual approximation of national legislation with EU *acquis* (Ministry of European Integration, 2017[19]).

In November 2016, Kosovo also adopted the European Reform Agenda, which set out priorities until the end of 2017. The agenda's primary objective is to prioritise specific areas under the SAA, such as good governance and the rule of law, in order to boost the implementation of activities fulfilling them.

Every year the EU and the Kosovar authorities meet to discuss a wide range of policy issues and to agree on follow-up actions. Progress reports assess Kosovo's readiness to move closer to the EU. The findings and recommendations published in the *SME Policy Index: Western Balkans and Turkey* provide the monitoring and guidance needed to help Kosovo meet the requirements related to their potential candidate status under the section on "Enterprise and industrial policy" in the progress report.

According to the latest progress report, published in April 2018, Kosovo is moderately prepared in the area of enterprise and industrial policy (EC, 2018[7]). It has made some progress by introducing measures to improve the business environment. There is still a need to build up administrative capacity and ensure stronger inter-ministerial co-ordination. Kosovo was recommended to:

- introduce regulatory impact assessments to reduce the administrative burden on small and medium enterprises
- continue implementing the recommendations included in the SBA assessment
- ensure the alignment of the Law on Economic Zones with the EU *acquis*.

The Kosovo Investment and Enterprise Support Agency (KIESA) acts as the SBA Co-ordinator responsible for implementing the SBA principles. In January 2017, the SBA National Coordination Group was established, comprising 12 working groups. Each of these working groups was responsible for undertaking a different policy dimension under the SBA assessment, led by the OECD. Although some of these groups were not operational at the time of writing, this development highlights the importance placed on the SBA Assessment in Kosovo at the political level.

Furthermore, the new government, appointed in September 2017, has committed itself to implementing EU-related reforms. In that context, the Kosovo Assembly ratified the border demarcation agreement with Montenegro in March 2018. This is an important achievement and fulfils one of the key criteria for Kosovo's visa liberalisation (EC, 2018[7]).

February 2018 saw renewed momentum for EU accession among the Western Balkans economies following a statement from the European Commission seeking "a credible enlargement perspective for an enhanced EU engagement with the Western Balkans" (EC, 2018[20]). The EC launched its new Western Balkans accession strategy, which details six flagship reform initiatives, including addressing key issues surrounding rule of law, security and migration, increased connectivity and neighbourly relations. They also incorporate important elements that support SME policy and Chapter 20 (Enterprise and industrial policy) preparedness in the *acquis*, namely: socio-economic development and a digital agenda.

EU financial support

The European Union – both its member countries and its institutions, notably the European Commission – has played a prominent role in Kosovo's reconstruction and development. Kosovo has received more than EUR 2.3 billion in EU assistance since 1999, and close to EUR 1 billion in support to international presence since 1999 (European Commission, 2016[21]). The EU is by far the single largest donor providing assistance to Kosovo and the Western Balkan region, and is at the forefront of the reconstruction effort.

In addition to the EU assistance funds, EUR 149 million has been provided to Kosovo in European Investment Bank loans since 1999, and another EUR 95.7 million in Western Balkans Investment Framework grants since 2009, leveraging investments estimated at EUR 764 million (EC, 2018[22]).

In December 2017, an agreement was signed on Kosovo's participation in the EU Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) programme. Kosovo will be able to access COSME funding once internal procedures for the approval of the agreement are complete. Kosovo should start developing measures to raise awareness among business stakeholders and ensure their active participation in the programme.

SMEs in the national economy

Kosovo's classification of SMEs is defined by the law on foreign investment which entered into force in 2014. The only criterion is employment size, which is in line with the EU definition (Table 15.3).

Table 15.3. Definition of micro, small and medium-sized enterprises in Kosovo

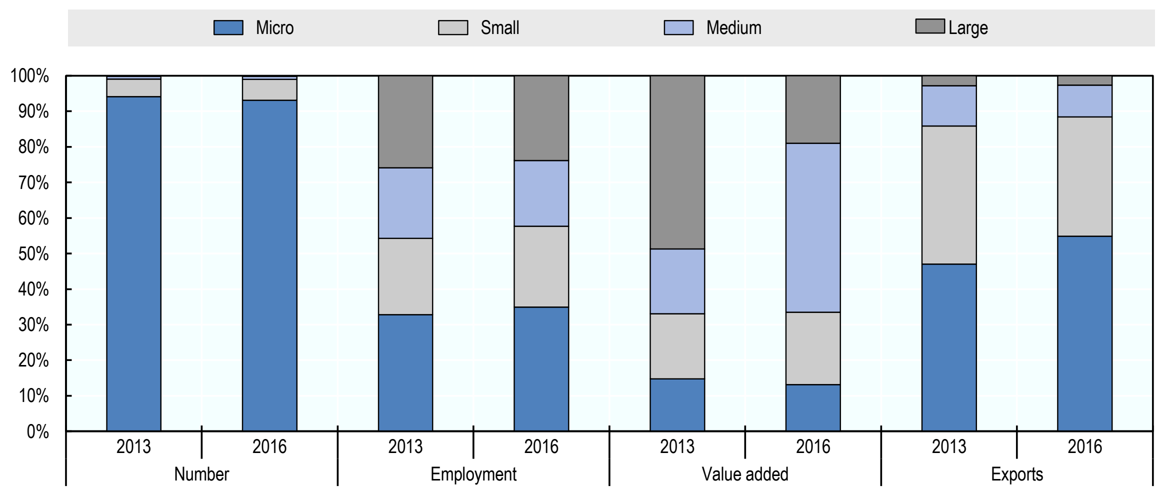
	EU definition	Kosovo definition
Micro	< 10 employees, turnover or balance sheet total ≤ EUR 2 m	< 10 employees
Small	< 50 employees, turnover or balance sheet total ≤ EUR 10 m	< 50 employees
Medium	< 250, turnover ≤ EUR 50 m or balance sheet total ≤ EUR 43 m	< 250 employees

Note: In Kosovo the classification of SMEs is defined by Law No. 04/L-220 on Foreign Investments. The SME categorisation is based on the number of employees (Article 2, paragraph 1.21).
For purposes related to the law on bankruptcy an SME is defined as a business organisation which has an annual turnover of up to EUR 1 million or has up to 25 employees. This definition is only applied in bankruptcy cases.
Source: Republic of Kosovo (2014[23]), *Law No. 04/L-220 on Foreign Investment*, https://mti.rks-gov.net/desk/inc/media/1916AE1F-48E8-451D-A328-CA350EC4D7D2.pdf.

Kosovo's business sector is made up almost entirely of SMEs. There are around 38 000 registered enterprises operating in Kosovo, 93.1% of which are micro enterprises, 5.9% are small and 0.9% are medium sized. Only 0.1% of the total business population are classified as large enterprises.

SMEs contribute to 76.2% of total business sector employment and account for 81% of total value added of the business sector. However, at 13.2% the added value created by micro enterprises remains very low compared to other economies in the region. The biggest value creation (47.5%) comes from medium-sized enterprises, which represent less than 1% of the business population, which employ one-fifth of the total business sector employment. By contrast, the contribution of large enterprises to value added has been declining since 2013 (Figure 15.2). According to data provided by the Statistical Agency of Kosovo, the share of SMEs owned by women in Kosovo slightly decreased from 10.54% in 2013 to 10.24% in 2016.

Figure 15.2. Business demography indicators in Kosovo (2013 and 2016)

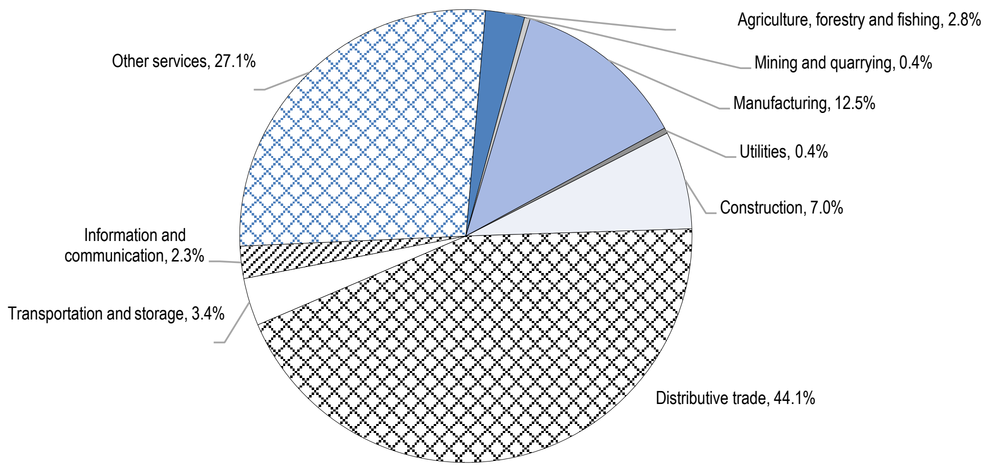


Source: Statistical Agency of Kosovo, 2018.

StatLink http://dx.doi.org/10.1787/888933937869

In Kosovo, SMEs mostly operate in the distributive trade sector (44.1%), while 12.5% operate in the manufacturing sector, but with a low level of integration into the global value chain (EC, 2018[1]); 7% in the construction sector, just 2.8% in the agricultural sector, and 0.4% in the mining and quarrying sectors (Figure 15.3). Regarding the geographic distribution of enterprises, around one-third of all registered enterprises are located in the district of Pristina (Table 15.4).

Figure 15.3. Sectoral distribution of SMEs in Kosovo (2016)



Note: The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Source: Statistical Agency of Kosovo, 2018.

Table 15.4. Number of registered companies in Kosovo by enterprise size and district

District	Year	Enterprise size, by employment					Share of total number of enterprises
		0-9	10-49	50-249	250+	Total	
Gjakova	2013	3 275	136	10	0	3 421	10.02%
	2017	3 408	162	17	2	3 589	9.40%
Gjilan	2013	3 397	150	20	0	3 567	10.45%
	2017	3 580	233	20	0	3 833	10.04%
Mitrovica	2013	2 755	96	14	3	2 868	8.40%
	2017	3 069	146	23	2	3 240	8.49%
Peja	2013	2 863	130	29	1	3 023	8.86%
	2017	3 189	185	23	2	3 399	8.90%
Prizren	2013	5 310	232	27	5	5 574	16.33%
	2017	5625	317	34	3	5 979	15.66%
Pristina	2013	10 845	789	166	38	11 838	34.68%
	2017	12 605	1 111	216	47	13 979	36.62%
Ferizaj	2013	3 683	142	20	1	3 846	11.27%
	2017	3 898	231	28	1	4 158	10.89%
Kosovo	2013	32 128	1 675	286	48	34 137	100.00%
	2017	35 374	2 385	361	57	38 177	100.00%

Source: Statistical Agency of Kosovo, 2018.

Assessment and recommendations

Process

The Small Business Act (SBA) assessment cycle was launched in Kosovo with a kick-off meeting in Pristina on 12 October 2017. During the meeting, the new assessment framework (see Policy Framework and Assessment Process chapter and Annex A for details) was presented to line ministries and public institutions so they could contribute to the information collection process. The two documents making up the assessment framework – the questionnaire and statistical data sheet – were explained in depth to the participants, directing particular attention to the newly added questions and indicators.

Following the launch event, the Kosovo Investment and Enterprise Support Agency (KIESA) distributed the questionnaire to the appropriate counterparts in the ministries and government agencies, and sent the statistical sheet to the National Statistical Office of Kosovo. From October 2018 to January 2019, the necessary data and documentation were compiled, subsequent to which the questionnaire was completed. In so doing, a score for each policy dimension was assigned, accompanied by a justification. The completed questionnaires and statistical data sheet were sent to the OECD team on 15 January 2018.

The review of the inputs by the OECD and partner institutions revealed the need for additional information on statistical data. This was requested from KIESA, which sent back the updated statistical sheet on 27 February 2018.

Meanwhile, an independent assessment was also conducted by the OECD and its partner organisations. This was based on inputs from a team of local experts in Kosovo, who collected data and information and conducted interviews with key public and civil society stakeholders, as well as with SME representatives.

Following the completion of the government self-assessment and independent assessment, a reconciliation meeting was organised by the OECD in Pristina on 17 April 2018. The meeting aimed to fill any remaining information gaps in the questionnaire, while also serving as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies, and what else can be done across various policy areas to improve SMEs' performance and competitiveness in Kosovo. For the two policy dimensions (entrepreneurial learning and women's entrepreneurship, and enterprise skills) whose assessment was led by the European Training Foundation (ETF), similar meetings took place in Pristina on 24-25 January 2018.

The reconciliation meeting allowed the assessment findings to be consolidated. The OECD and its partner organisations decided on the final scores under each policy dimension presented in this report. The preliminary findings and scores were subsequently presented to SBA Co-ordinators at a meeting in Paris on 14 July 2018. The draft SME Policy Index publications and the SBA Assessment profile of Kosovo were made available to the Kosovar Government for their review and feedback during August-October 2018.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 15.5).

For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

Table 15.5. Description of score levels

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

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

Kosovo has made some progress in implementing entrepreneurial learning, and is progressing well in developing policy for entrepreneurship key competences. Despite this, its overall score of 2.53 (Table 15.6) ranks Kosovo the lowest in the region for this dimension alongside the Republic of North Macedonia. A weak monitoring and evaluation framework for entrepreneurial learning and women's entrepreneurship negatively affects Kosovo's performance in this policy dimension.

Table 15.6. Scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	3.00	3.73
		Implementation	3.59	3.61
		Monitoring and evaluation	1.00	2.57
		Weighted average	**2.89**	**3.43**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	2.33	3.57
		Implementation	1.86	3.16
		Monitoring and evaluation	1.80	2.37
		Weighted average	**1.99**	**3.12**
Kosovo's overall score for Dimension 1			**2.53**	**3.31**

State of play and key developments

Entrepreneurial learning

At a policy level, Kosovo's economic development is clearly linked to human capital. Kosovo's revised Strategic Development Plan for Education 2017-2021 sees education as a function of the economy's economic and social development. Through the chapter on human capital development, the strategy is aligned with the National Development Strategy 2016-2021, led by the Prime Minister's Office. The Strategic Development Plan for Education proposes concrete activities to better link education and the labour market by facilitating access to smart specialisations[3] in line with the Europe 2020 strategy. However, the SME Development Strategy (2012-16), previously used to steer donors' SME support activities, has been merged with the Private Sector Development Strategy foreseen to be approved early 2019.

Co-ordination, aligning plans and priorities, and monitoring them in the education system remain challenging. No progress has been made on government approaches to collaboration across ministries on entrepreneurial learning and key competences, or to improve the involvement of municipalities, higher education institutions and the private sector, which is essential for advancing the implementation of education reform. The areas of entrepreneurial learning and entrepreneurship key competences are especially in need of a co-ordinated planning and monitoring framework as they are spread across multiple policy documents, such as the Kosovo Strategic Development Plan for Education (2017-21), the Action Plan on Increasing Youth Employment (2018-2020) and the National Development Strategy (2016-2021). There are some policy partnerships between relevant ministries and other stakeholders to promote entrepreneurship education, however. These include the Ministry of Education, Science, and Technology, which leads the Council for Vocational Education and Training (established in 2012); and the new Ministry of Innovation and Entrepreneurship, which leads the National Council for Innovation and Entrepreneurship (set up in November 2017). Data collection on implementing entrepreneurial learning is also a problem, and affects Kosovo's ability to monitor and evaluate impact.

Kosovo has a policy commitment to the entrepreneurship education agenda, and the Ministry of Education has made good progress implementing entrepreneurial learning in primary and secondary education as part of a course on entrepreneurship and technology. Within the VET system, key competences are in the drafting phase and will focus on developing self-employment skills by teaching people how to spot self-employment opportunities and act upon them. The Action Plan for Increasing Youth Employment 2018-2020 is the main reference document, and includes activities to develop entrepreneurship as a key competence in formal education and to promote non-formal entrepreneurial learning. Its implementation is supported financially by the government.

Women's entrepreneurship

Kosovo has not made significant progress in advancing women's entrepreneurship. The Prime Minister's office has a separate agency that co-ordinates, informs and encourages women to be included in business activities. Women's entrepreneurship is mainstreamed and each sector ministry is responsible for sector policy guidance, supervision, co-ordination, implementation and monitoring within their sector of activity. The Ministry of Local Government Administration is responsible for co-ordinating and implementing activities at subnational level, as well as leading the collection and dissemination of gender disaggregated data across all sector ministries. The main policy documents that could serve as references for women's entrepreneurship are the Ministry of Trade and Industry's now expired Private Sector Development Strategy (2013-17), which refers specifically to women; and the SME Development Strategy (2012-16), also expired, as Strategic Goal 7 was dedicated to "improving the position of female entrepreneurs". The new strategy on private sector development, which is currently under public hearing, foresees the improvement and positioning of women in entrepreneurship.

Kosovo continues to suffer from lack of co-ordination in the area of women's entrepreneurship. The only formal policy platform currently used is the National Council for Economic Development. The council, chaired by the Prime Minister, organises and co-ordinates all activities of state institutions, aiming to eliminate barriers and improve the environment of business and investment in the economy. The council regulation does not specifically mention women's entrepreneurship nor is there a dedicated sub-group. The Economic Chamber of Women in Kosovo, working on a National Agenda of Women's Economic Empowerment, is the only civil society organisation working on women's entrepreneurship to take part in the council. No other structured co-ordination mechanism driven by non-governmental organisations currently exists to improve the visibility of women in entrepreneurship, and neither is there government financing available to build such capacity from the ground up.

An important success in mainstreaming gender is the imposition by the Government of Kosovo of a minimum threshold quota for women to be fulfilled in all financial support for pre-start-ups, start-ups and technology start-ups. In addition, a new law (Law No.

06/L-016 on Business Organizations 05/2018) stipulates that Joint Stock Company boards must be comprised of at least 40% women and, two years after registration, at least 50%.

The way forward for Dimension 1

Kosovo is performing below the regional average on entrepreneurial learning and women's entrepreneurship. The following steps could help advance progress on this dimension:

- **Strengthen appropriation of entrepreneurship as a cross-cutting competence.** The Ministry of Education, Science and Technology needs to further strengthen the key competence approach and move towards the horizontal adoption of entrepreneurship key competences across curricula and levels of education. Teacher training programmes that include active learning methods for entrepreneurship key competence development need to be made available for in-service training.
- **Facilitate education-business co-operation for the purposes of entrepreneurial learning.** Stronger education-business co-operation represents an untapped opportunity to help bridge the gap between the skills needed in the labour market and those offered by education and training providers. Examples of good co-operation between the public and private sector include partnerships like the one between the Pristina International Airport and the Ministry of Education, Science and Technology on the Limak Airport Services Institute, which addresses the skills gap in the aviation sector. The Kosova Education Center (KEC) under the Ministry of Education, Science and Technology, and the Institute for Research and Development in Education under the Faculty of Education could be engaged to improve the educational process through purposefully designed education-business co-operation, incorporating internships into curricula and learning outcomes.
- **Facilitate education-business co-operation through teacher training and reward mechanisms**. Education-business co-operation relies heavily on active teachers and their desire to incorporate SMEs in their teaching. Upskilling teachers by integrating education-business co-operation into their education and training provision – and establishing mechanisms for its recognition – would stimulate this collaboration. The Pedagogical Institute, together with the KEC, could be engaged to design education-business co-operation to improve teachers' practical entrepreneurship skills. Types of education-business co-operation could include: mobility of students, upskilling the existing SME workforce (fostering the commitment of companies to lifelong learning), employer-led education and training provision, and collaboration in research and development with both higher education institutions (the University of Pristina currently uses business games, for example) and VET providers.
- **Build up decentralised capacity to connect business and education and training providers.** Local authorities could play an important role in shaping the development of the territory through facilitating interaction between business and education and training provision e.g. by developing curricula and approaches to teaching and learning that meet the needs of employers. Such a role is currently played by central authorities, for instance by the Ministry of Trade and Industry that together with the Ministry of Labour and Social Welfare implemented, in

partnership with the business community, a Business Internship project which enabled students to combine their knowledge with the professional abilities required by a specific business.

- **Formalise co-ordination on women's economic empowerment.** Empowering women in the economy is a prerequisite for Kosovo's growth, competitiveness and overall sustainable socio-economic development. Kosovo would benefit from strong high-level political leadership in recognising that the full potential of women's contribution to Kosovo's economy remains untapped. By creating a formal inter-ministerial group, possibly a sub-group under the National Council for Economic Development, support to women's entrepreneurship would be better co-ordinated and made more efficient. The sub-group could help to conclude the National Agenda of Women's Economic Empowerment, develop an action plan for its implementation and take over the role of leading the collection and dissemination of gender-disaggregated data from the Ministry of Local Government Administration. Examples from EU and OECD countries might offer guidance when developing an action plan (Box 15.2).
- **Develop a co-ordinated framework for monitoring and evaluation in order to bring about positive change.** Monitoring and evaluation remain the weakest areas in the SBA assessment – Kosovo needs to address the skills data challenge head on. The National Council for Innovation and Entrepreneurship could establish a monitoring mechanism, in collaboration with KIESA, to conduct skills tracking as a routine process of collecting and recording information across multiple policies and sectors. This would provide up-to-date intelligence from employers and industry to ensure the relevance of education and training provision to SMEs. At present, however, the Ministry of Innovation and Entrepreneurship, under which the council sits, has been allocated no additional financial resources to cover the costs of leading the council so all costs must be absorbed by the existing budget. Without dedicated resources (financial, human and equipment) there can be no co-ordinated planning and monitoring framework that contributes to rational, evidence-based, skills policy and outcome-oriented governance of SME support.
- **Renew the National Strategy for Entrepreneurship Education and Training.** The National Council for Innovation and Entrepreneurship could take on the review of this now expired national strategy.

Box 15.2. France's Women's Entrepreneurship Plan

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

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

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

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

In 2013, the initiative mobilised a network of 130 women entrepreneurs, and reached 260 young women who were interested in becoming entrepreneurs. There were 400 promotional events in 2015, which was double the number in 2014. The FGIF assisted 2 075 women to start businesses in 2015 and helped create 3 095 jobs.

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

Source: Government of France (2018[24]), L'entrepreneuriat: Redonner de la Compétitivité aux Entreprises, www.gouvernement.fr/action/l-entrepreneuriat (in French).

Bankruptcy and second chance (Dimension 2)

Since the last assessment, Kosovo has made progress in adopting new laws that allow for effective bankruptcy proceedings. Kosovo's score in this assessment has slightly increased from 2.68 to 2.71 (see Table 15.7), reflecting this enhanced legal framework. Nevertheless, due to its low enforcement capacity and lack of second chance policies, it still performs slightly below the regional average of 2.87 (Table 15.7).

Table 15.7. Scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**2.29**	**2.39**
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.41	3.71
		Performance, monitoring and evaluation	2.40	2.46
		Weighted average	**3.01**	**3.21**
	Sub-dimension 2.3: Promoting second chance		**1.90**	**1.93**
Kosovo's overall score for Dimension 2			**2.71**	**2.87**

State of play and key developments

Preventive measures and bankruptcy procedures

The previous regulation on Liquidation and Reorganisation of Legal Persons in Bankruptcy was replaced with a new bankruptcy law[4] in July 2016, leading to a number of crucial changes (Table 15.8). Most notably, the new law includes a chapter on SMEs,[5] and Article 12 states that proceedings involving an SME debtor shall be treated as reorganisation cases, with the SME required to file a reorganisation plan within 30 days following the initiation of bankruptcy proceedings. Article 13 stipulates the appointment of a "monitor", charged with assisting SMEs in their reorganisation plans.

In addition, in March 2018 a new Law on Business Organisations was adopted, setting out regulations governing bankruptcy and insolvency proceedings for limited liability and joint stock companies.

In terms of preventive measures, the Tax Administration of Kosovo (ATK) runs an early warning system, which operates according to the companies' tax declarations, to identify financially distressed companies. The ATK has a right to submit a petition for involuntary bankruptcy if all of the following conditions are met:

- a debt has been due for at least 60 days
- the tax debtor owes the ATK more than EUR 2 000
- the debt is not conditional or subject to a *bona fide*[6] dispute.

Kosovo's legislation allows restructuring to take various forms, such as debt forgiveness, debt rescheduling, debt-equity conversions and the sale of the business or its parts. The recovery rate in Kosovo is steadily increasing: in 2016 it was at the level of 37.7 cents in the dollar, while in 2018 this figure had risen to 39.4 cents in the dollar (World Bank, 2018[18]). However, insolvency proceedings remain relatively expensive, costing on average 15% of the estate, compared to the OECD average of 9.6%.

Table 15.8. Overview of the changes introduced in the new insolvency framework

	Previous framework	New framework
Can a debtor initiate liquidation or reorganisation procedures?	No liquidation or reorganisation available.*	Yes. Debtors can initiate both procedures.
Do creditors vote on the reorganisation plan?	No reorganisation available.	Yes. Creditors whose rights are affected by the proposed plan vote on it.
Can a court invalidate preferential and undervalued transactions concluded before insolvency proceedings?	No provisions.	Yes.
Can a debtor obtain credit after commencement of insolvency proceedings?	No provisions.	Yes. The debtor or the administrator may obtain new financing after the commencement of insolvency proceedings and the priorities of the new financing are clearly established.
Can creditors participate in important decisions?	No provisions.	Yes. Every creditor has the right to request information on the debtor's financial situation from the insolvency representative and may object to the decision

Note: *Previously there was a special law on reorganisation allowing state-owned companies to restructure/reorganise their debts.
Source: World Bank (2017[17]), *Doing Business 2018: Reforming to Create Jobs*, http://dx.doi.org/10.1596/978-1-4648-1146-3.

Out-of-court settlement does not exist in Kosovo as an alternative way to file for bankruptcy. However, since 2008 the legal framework has allowed creditors and debtors, once the insolvency proceedings are initiated, to go into mediation to resolve disputes under the supervision of a neutral mediator.

Some measures on the timing of formal discharge procedures were also introduced into the legal framework in 2017. The debtor can be discharged of responsibility when the liquidation case is closed, or when the business registry or tax administration is notified about the closure of the case. For SMEs the law states that an SME debtor shall receive a discharge on confirmation of its plan during the reorganisation phase. However, these improvements are not necessarily reflected in the statistics during the assessment period as the average time to resolve insolvency (two years) has not changed since 2016 (World Bank, 2018[18]).

In order to provide protection to all parties involved in a transaction, Kosovo established the Law on Payment System and Law on Prevention of Money Laundering and Terrorist Financing in November 2016. The legislation specifies that a debtor gives the creditor the right to own the property held by the debtor. This legal provision ensures that in case of bankruptcy, the property included in the secured transaction agreement fulfils the financial obligations of the debtor. In turn, the creditors are secured against loss, and are paid first in the case of business liquidation.

The Credit Registry division of the Central Bank of Kosovo monitors and oversees reporting and updating data submitted by institutions defined under the Credit Registry Regulation. However, this cannot be considered as a monitoring and evaluation mechanism of the bankruptcy law as it is limited to the publication and update of distressed companies.

Promoting second chance

Kosovo has taken no initiatives to promote second chances among entrepreneurs, with no national strategy or promotion campaign planned. In addition, Kosovo does not provide any sort of mentoring support to potential entrepreneurs who fear failure.

The way forward for Dimension 2

Despite having introduced changes into the legislative framework concerned with bankruptcy and second chance, some challenges remain. The following measures would be helpful:

- **Develop a fully-fledged "early stage" warning system**: SME owners have a tendency to underestimate their financial difficulties and to resist taking action to alleviate their hardship. In addition to the measures undertaken by tax authorities, Kosovo should consider introducing a system which would convince those entrepreneurs to initiate recovery measures. Such a system might take different forms. However, first it should devise special procedures to screen and monitor early signs to detect SMEs in financial difficulties. Second, the identified SMEs need to be approached and advised on objectively assessing their financial situation, as well as on the various options available to them concerning recovery. Once they are better informed, SMEs would be able to take the required steps at an earlier stage, hence increasing their chances of survival. Early warning mechanisms established in the EU states could offer a blueprint for Kosovo (Box 15.3).
- **Improve the legal framework and develop initiatives to reduce cultural stigma surrounding entrepreneurs' failure.** A clear distinction has to be made between measures or regulations that apply to fraudulent bankruptcies and those that apply to honest ones – this distinction can be instrumental in changing society's attitude towards debtors. However, amendments to the legal framework alone are not enough: they should be complemented by initiatives promoting a fresh start and a culture that is receptive to and tolerant of failure. Workshops and seminars aimed at sharing the lessons learned from previously bankrupt entrepreneurs can remove the stigma surrounding bankruptcy and failure.
- **Further reduce the average cost and duration of bankruptcy proceedings**. There is a strong correlation between the average cost and the duration of bankruptcy proceedings. Considering this, stricter rules should be enforced related to the management of bankruptcy estate, as well as the fees and awards paid to bankruptcy administrators. For instance, setting a time limit for the period during which fees are paid to bankruptcy administrators would provide additional incentives for the quick resolution of bankruptcy cases, thus decreasing the associated costs of proceedings.
- **Make the existing mediator system available before the opening of bankruptcy cases.** Kosovo does not currently have out-of-court settlements, however it does allow mediation through chambers of commerce once a bankruptcy case is filed. This system could be extended to enable meditation to take place immediately upon receiving a signal from the tax administration or a well-designed early warning system, before a court case is actually initiated. This approach offers a less expensive and faster alternative to filing for bankruptcy, and also supports the economy by reducing the number of liquidations, the size of

the administrative burden, and costs for SMEs, as well as shortening the time taken to resolve insolvency.

Box 15.3. Early Warning Europe

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

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

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

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

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

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

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

Source: Early Warning Europe (2018[25]), *Early Warning Europe website*, www.earlywarningeurope.eu.

Institutional and regulatory framework for SME policy making (Dimension 3)

Of all the assessed economies, Kosovo has progressed most in this dimension, from 3.01 in 2016 to 3.92 (see Table 15.9 and Figure 15.1), signalling an important shift from an advanced policy design to effective implementation. Kosovo has improved its performance in all the policy aspects covered under this dimension.

Table 15.9. Scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	3.71	4.06
		Implementation	4.53	4.06
		Monitoring and evaluation	3.67	3.92
		Weighted average	**4.11**	**4.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	4.20	4.00
		Implementation	2.83	3.25
		Monitoring and evaluation	3.27	3.23
		Weighted average	**3.33**	**3.47**
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	4.38	3.86
		Private sector involvement in PPCs	4.40	4.26
		Monitoring and evaluation	3.67	2.73
		Weighted average	**4.25**	**3.79**
Kosovo's overall score for Dimension 3			**3.92**	**3.79**

State of play and key developments

Institutional framework

Since the last assessment, Kosovo has taken important steps to further improve its institutional and regulatory framework for SMEs. The previous Private Sector Development Strategy expired in 2017 – the new Private Sector Development Strategy covering the period 2018-22 was drafted and sent for public hearing in late 2018.

The draft Private Sector Development Strategy is committed to the continuous development of the private sector. It builds on the approach adopted in previous years, with the addition of some new elements, such as greater emphasis on the integration of SMEs into global value chains, and the introduction of new services focused on improving SMEs' financial literacy. However, the draft Private Sector Development Strategy, like the previous one, fails to identify performance indicators or reporting mechanisms for the planned measures and activities.

The implementation of SME-related activities has continuously been supported by a well-functioning SME implementation agency – the Kosovo Investment and Enterprise Support Agency (KIESA). After having experienced resource cuts, KIESA was reinforced in 2018, both financially (a budget increase of 40% in 2018) and in terms of human resources (20% more staff in 2018 than in 2017). This positive trend is predicted to continue in 2019, with KIESA announcing a slight increase in its 2019 budget.

Measures to combat the informal economy are not included in the draft Private Sector Development Strategy, however. The Ministry of Finance is entrusted with the task of fighting the grey economy: as part of the National Strategy for the Prevention of and the Fight against Informal Economy, Money Laundering and Terrorist Financing (2014-2018), it has implemented a number of measures to reduce tax evasion and raise awareness of the harmful nature of the informal economy. The installation of fiscal cash registers has been completed and the inspection system reform has started – planned to be finalised in 2020.

Legislative simplification and regulatory impact analysis

Since the last assessment, Kosovo has intensified efforts to review and simplify its primary and subordinate business-related legislation through an updated Better Regulation Strategy 2.0 (2017-2021) and related Action Plan (Box 15.4). The aim of the updated strategy is to further improve the design of evidence-based policies and legislation, as well as to contribute to inclusive growth. More than 60% of the primary business-related legislation had been reviewed by the end of the first quarter of 2018.

In addition, the Better Regulation Strategy has intensified efforts to improve regulatory impact analysis (RIA) practices. In particular, the draft manual for conducting RIA has been updated, and a cost-benefit analysis of new legislation has now become a mandatory part of the RIA process. There is also a formal requirement to examine SME aspects as part of RIA, but a fully-fledged SME test has not yet been embedded in the RIA methodology. Capacity building of government officials on RIA has also been initiated, with the Kosovo Institute for Public Administration providing a 10-day training course on RIA for 161 officials in 2016 (OECD, 2017[26]).

However, despite these initiatives, RIA is still at an early stage of development in Kosovo, i.e. it is not fully implemented in practice. Only a minority of draft laws are accompanied by the mandated background analytical document. Even when they are, the quality of analysis in these documents is variable, with important elements often missing.

Box 15.4. Better Regulation Strategy 2.0 (2017-21)

The first major regulatory reform in Kosovo took place in 2014 with the introduction of the Government of Kosovo Better Regulation Strategy (2014-2020). However, in the ensuing years, serious issues have emerged surrounding the implementation of the strategy and fulfilment of its objectives. Some of the main reasons for this lie in the lack of both human and financial resources, as well as overly ambitious assumptions about how Better Regulation policies need to be designed and carried out within an administration.

As a result, in 2016, after a comprehensive and in-depth analysis, the government decided to restructure the strategy and ensure that Kosovo's Better Regulation Agenda was based on a more realistic approach that considered the time needed to successfully develop and implement its activities. This led to the Better Regulation Strategy 2.0 (2017-2021) being developed and adopted, aiming to improve the design of policies and legislation by ensuring that they are based on evidence (relevant data and statistics), analysis and consultation with key stakeholders. Its main objectives are as follows:

- assess how the Government of Kosovo could develop an effective programme for reducing the administrative burden
- introduce impact assessments based on the current system for developing concept documents, for which policy development capacities will be significantly increased
- improve stakeholder consultation through full implementation of the Minimum Standards for consultation
- improve policy communication based on in-depth analysis of the current situation which will be presented in a concept document combined with a specific action plan
- develop a more realistic work plan that takes into account the time needed to conduct policy analysis and stakeholder consultation; based on a concept document in which the design will be outlined.

In order to ensure the effective implementation of the Better Regulation Strategy 2.0, the government has attributed this task to the Government Coordination Secretariat within the Office of the Prime Minister.

Sources: Office of the Prime Minister (2017[27]), *Better Regulation Strategy 2.0 for Kosovo: 2017-2021*, www.kryeministri-ks.net/repository/docs/Better_Regulation_Strategy_2_0_for_Kosovo_-_ENGLISH.pdf; information collected from the government over the course of this assessment.

Public-private consultations

Public-private consultations (PPCs) are required for all business-related legislation in Kosovo. The main novelty since the last assessment has been the introduction of a centralised website in 2017, which showcases all ongoing and past consultations along with their outcomes. This has brought further discipline to line ministries in sharing draft legislative proposals for written public consultation.

In addition, PPCs take place regularly, in line with the regulation requirements. Kosovo is one of the WBT economies with the lowest share of laws adopted through an urgent procedure, i.e. without any consultations conducted. In 2016, 19% of laws were adopted while circumventing PPC. Although this percentage is not very low, only Albania and Montenegro had a lower share among the assessed economies in the same year, at 5% and 9% respectively (OECD, 2017[26]).

When it comes to monitoring and evaluating PPCs, Kosovo is the only WBT economy to mandate a body, the Office on Good Governance of the Office of the Prime Minister, to monitor the execution and outcomes of consultations in 2017. Nevertheless, even though the office is tasked with preparing an annual report on the public consultation process, it does not consistently check the compliance of draft proposals with the public consultation requirements before the proposals are submitted to the government for decision.

In 2015, the government re-established the National Council for Economic Development of Kosovo (NCEDK), which is housed in and co-ordinated by the Ministry of Trade and Industry. It organises and co-ordinates the activities of state institutions, aiming to eliminate barriers to and address the challenges of doing business in Kosovo, ultimately helping to improving the business and investment environment. One of its key features is to act as a platform for public-private exchange, gathering representatives from the private sector and public institutions and strengthening the role of the business community in Kosovo's process of economic development. However, its effectiveness has so far been questionable – businesses see the NCEDK as ineffective at addressing issues properly and in a timely manner (EBRD, 2018[28]). This is in part because the secretariat of the council is housed in the Ministry of Trade and Industry, staffed by civil servants who are not necessarily professionally equipped to service the council's needs, and who have other professional obligations in addition to supporting the NCEDK and its members (EBRD, 2018[28]). To overcome these challenges, in 2018 the Minister of Trade and Industry of Kosovo requested EBRD support to provide a full-time, professional Secretariat to the NCEDK, given their experience in the field. With this new impetus, the NCEDK is expected to improve its performance and impact – although concrete results are yet to emerge.

The way forward for Dimension 3

As mentioned above, Kosovo has taken a number of important steps in building a solid institutional and regulatory framework for SMEs. Going forward, it should place more emphasis on the following points:

- **Improve the monitoring of the Private Sector Development strategy, and start evaluating its effectiveness on the ground.** The former Private Sector Development Strategy, which expired in 2017, has not been evaluated – hence lessons learned from its implementation could not be used when designing the new strategy. Moreover, the draft private sector strategy lacks concrete targets and performance indicators, which hampers effective monitoring. Therefore, once the Private Sector Development Strategy 2018-2022 has been adopted, the government should start tracking its implementation by establishing a monitoring system that includes indicators and targets. This should be followed by evaluating the measures implemented under the strategy – considering the relatively large public funds disbursed, this evaluation would help the government to better allocate its limited resources to the most effective and needed programmes and activities.
- **Ensure full implementation of RIA, while giving consideration to SME aspects.** Evidence indicates that there is significant variation in the quality of RIA reports received from different line ministries. RIAs often lack the required information, e.g. the analysis of alternative options to the proposed draft and/or a proper assessment of the impact on SMEs. In addition to providing RIA training to government officials and distributing clear guidelines with concrete examples on how to conduct RIAs, the government might further leverage the Office on Good Governance to ensure the quality of RIAs. This office could be given a clear mandate to return RIA documents deemed to be below par to the responsible institution for revision before the proposal goes to the government. This way, the institution proposing the legislation will be obliged to ensure a minimum quality of RIA, aligned with legal requirements.
- **Ensure effective SME participation in public-private consultation**. Very little has been done to reach out to SMEs to increase their participation in the dialogue on business-related legislation. For small economies like Kosovo, with fewer SMEs, it is easier for policy makers to have regular meetings with a larger share of SMEs. Montenegro's Business Caravan could serve as a good example of how to reach out to SMEs and ensure their participation in the development of business-related legislation. The Business Caravan was organised during the development of the new SME strategy. It consisted of a set of meetings in

14 municipalities in Montenegro during which the government met with private sector representatives to gather their insights into the quality of the proposed measures, as well as areas for further improvement.

Operational environment for SMEs (Dimension 4)

Since the 2016 assessment, Kosovo has made significant progress in the area of operational environment for SMEs (Figure 15.1), increasing its score from 3.2 to 3.75 (Table 15.10). This score puts Kosovo in second place in the WBT region, reflecting its efforts in further reforming the regulations concerned with SMEs.

Table 15.10. Scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for enterprises	Planning and design	4.20	4.07
		Implementation	3.57	3.47
		Monitoring and evaluation	2.47	2.05
		Weighted average	**3.48**	**3.29**
	Sub-dimension 4.2: Company registration	Design and implementation	4.73	4.48
		Performance	4.90	3.72
		Monitoring and evaluation	5.00	3.59
		Weighted average	**4.87**	**3.97**
	Sub-dimension 4.3: Business licensing	Licence procedures	3.76	3.67
		Monitoring and streamlining of licence system	3.13	3.18
		Weighted average	**3.44**	**3.43**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Kosovo's overall score for Dimension 4			**3.75**	**3.45**

Note: A new sub-dimension 4.4 on tax compliance procedures for SMEs was added at the request of the assessed economies, to better reflect the complexity of the overall picture of the operational environment for SMEs, however, as it is a pilot analysis this sub-dimension has not been included in the scoring.

State of play and key developments

Digital government services for enterprises

Kosovo's efforts to integrate digital government into public administration reforms are connected to the implementation of the Public Administration Reform Strategy 2015-2020. The overall aim of this strategy is to develop the public administration and its administrative capacities. In the context of digital services, the strategy sets two main objectives:

- the development and integration of electronic systems based on the interoperability framework
- the establishment of a one-stop shop model for delivering services to citizens and businesses, and the application of e-government methods.

Kosovo does not offer digital services for filing social security returns, and has no initiatives for raising SMEs' awareness of the use of digital services in general. However, SMEs can benefit from various e-services through several institutions. For example, services for filing tax returns and services for pension schemes are digitalised and fully operational on the tax administration website (www.atk-ks.org). Digital services related to the cadastre, such as the geographical outline and land identification number, are offered on line (www.geoportal.rks-gov.net). In addition, enterprise statistics are also offered by the Statistics Agency of Kosovo (SAK).

No system of digital authentication or digital signature is available for SMEs yet (see Section Operational environment for SMEs (Dimension 4)). On the other hand, the system for data exchange within the public sector is operational and is planned to be developed further, with the ultimate goal of creating one single digital network. Some data exchange systems also operate among different public institutions, including Payroll and Treasury, the Kosovo Business Registration Agency (KBRA), SAK, Customs, the Civil Registry, and the Central Election Commission.

Despite not belonging to the Open Government Partnership, Kosovo has committed to open data by adopting the Open Data Charter in 2016. This key document mandated the Ministry of Public Administration to draft a national data-opening plan. Moreover, the ministry also launched the Open Data Readiness Assessment Process using the World Bank's methodology (World Bank, 2019[29]). This assessment is a methodological tool that is used to conduct an action-oriented assessment of the readiness of a government to evaluate, design and implement an open data initiative at a later stage.

Overall, the positive developments in the area of planning and implementation are not yet reflected in monitoring and evaluation. Kosovo does not collect data on the use of digital services by SMEs – the only exception is the tax administration, which offers a general satisfaction survey for users through its e-portal.

Business registration and licensing

Since 2015, Kosovo has continued to reduce the number of procedures required to start a business to three, the lowest in the region. It should be underlined that Kosovo has been the forerunner across the region, reducing a company's registration time by almost 50% in the last three years – a development connected to the simplification of employee registration. In addition, the time needed to start business is 5.5 days, the second lowest of the WBT economies. The situation is similar for the cost of starting a business, which is 1% of income per capita.

Following the Public Administration Reform Strategy 2015-2020, in 2016 Kosovo introduced a system of one-stop shops allowing entrepreneurs to complete all the required registration steps through one of KBRA's 29 municipal one-stop shops. Online registration became operational in March 2017, and approximately 400 businesses have been registered through the system. Moreover, these one-stop shops offer 33 services, 24 of which are for changes related to business registration. Six services are for business registration and two are business liquidation services. Services for business registration include the issuance of a fiscal number and a VAT certificate. One-stop shops operate an integrated registration system, which includes a single application, facilitating the flow of information between the KBRA, Customs and the tax administration.

Kosovo is one of the WBT economies that offers information on the licensing process through a web portal (Central Registry of Permits and Licences), even though licences are granted by different public institutions. Despite the Central Registry of Permits and Licences having the responsibility for issuing permits and licences, it is the Legal Department of the Prime Minister's Office which conducts periodic legislative reviews pertaining to licences and permits so the Central Registry cannot be considered an administrative body, but merely a registry without any legal authority.

Kosovo aims to further streamline its administrative procedures for businesses by introducing the Better Regulation Strategy (2014-2020), which has been updated to the Better Regulation Strategy 2.0 (2017-2021) (Box 15.4). The strategy states that the planned SME test and the regulatory competitiveness test will pay specific attention to permits and licences; however, the document does not provide detailed information on the process or the content.

Tax compliance procedures for SMEs

In 2015, the revenue raised through tax in Kosovo was equal to almost 25% of the economy's GDP. Taxation in Kosovo is skewed towards VAT in order to reduce the informal sector, which contributed around 75% of the total share of tax revenue in 2015 (OECD, 2018[10]).

In Kosovo all businesses are subject to corporate income tax. The cash accounting regime for corporate income tax was introduced in 2015, under which businesses with annual gross incomes up to EUR 50 000 are eligible to use it. Under cash accounting, income tax is paid on revenues only when cash is received and input costs are deducted only when expenses are paid. Many SMEs opt for this method since it simplifies book-keeping by eliminating the need to record receivables and payables; i.e. only a cash payments diary is needed that records sales and purchases. In addition, Kosovar businesses with an annual gross income of up to EUR 50 000 are eligible to pay 3% tax on gross income derived from trade, transport and agricultural activities, and 9% from service-related activities. If enterprises' annual gross income exceeds EUR 50 000, they are obliged to pay the standard corporate income tax rate fixed at 10%.

In terms of VAT simplification measures, enterprises in Kosovo can benefit from a VAT registration and collection threshold. Voluntary registration for VAT is possible if a business's turnover is below EUR 30 000 within a calendar year. In September 2015, as one of the measures under the Programme of the Government of the Republic of Kosovo 2015-2018, Kosovo introduced VAT exemptions on the import of raw materials and information technology equipment in order to attract investors and reduce the black economy in this sector.

Further simplification measures for other taxes include special schemes for travel agencies and special arrangements applicable to second-hand goods, artistic work, collector's items and antiquities. The list includes a profit mark-up scheme and special arrangements for public auction sales, a flat rate scheme for farmers, and a special scheme for investments in gold.

The way forward for Dimension 4

Despite Kosovo's improvement in business registration and licensing, the following challenges still need to be addressed:

- **Establish a digital authentication system or e-signature** to widen the range of e-services. E-signatures or digital authentications allow users to complete all processes on line and save time – currently their physical presence is required to complete services.
- **Streamline business licences and permits by integrating the authority to issue them**. Although the current one-stop shops operated by the KBRA allow for easy registration of businesses, they do not centralise the application process for various licences and permits. Consequently, the KBRA's mandate could be

extended to further simplify the licence process so that enterprises do not need to visit several local public institutions to obtain permits.

- **Kosovo should continue its efforts to improve open government data** based on the result of the Open Data Readiness Assessment that is currently in progress. Kosovo needs to expand the online reporting of enterprise statistics and implement open government data. Open government data not only increase transparency and help in reducing corruption, they also carve out new ways for citizens to get involved. The levels of use of open government data by SMEs remain low, mostly due to the lack of sophisticated analytical tools needed to analyse large datasets. Therefore, in order to increase the use of open government data by SMEs, Kosovo should enhance the number of published machine-readable datasets relevant to SMEs and continue its efforts to increase the volume of accessible and relevant data. This could be achieved by strengthening the data-driven culture in the public sector, for example by greater digitalisation of services.

Support services for SMEs (Dimension 5a)

Since the 2016 SBA assessment, Kosovo has improved its performance on support services for SMEs, with an increase of its overall dimension score from 2.74 to 3.64 – one of the largest increases of all the WBT economies (Table 15.11). Despite this progress, Kosovo scores below the WBT average score of 3.89.

Table 15.11. Scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 5a: Business support services for SMEs	Sub-dimension 5a.1: Business support services provided by the government	Planning and design	4.56	3.84
		Implementation	2.79	3.68
		Monitoring and evaluation	2.92	3.19
		Weighted average	**3.35**	**3.63**
	Sub-dimension 5a.2: Government initiatives to stimulate private business support services	Planning and design	5.00	4.67
		Implementation	3.29	3.85
		Monitoring and evaluation	4.00	4.07
		Weighted average	**3.94**	**4.14**
Kosovo's overall score for Dimension 5a			**3.64**	**3.89**

State of play and key developments

Since the 2016 assessment, Kosovo's main strategy document for business support service (BSS) provision to SMEs, the Private Sector Development Strategy 2013-2017, has been phased out, with a draft being prepared covering the years 2018 to 2022. Apart from grant and credit support, the new strategy's action plan foresees the continuation of the two voucher co-financing schemes described below: one for product certification and the other for consulting services. The action plan also includes measurable targets to monitor their implementation. Both co-financing schemes have already been implemented by KIESA during the current assessment period. Information on all the BSSs offered by KIESA can be found on the institution's website, which is regularly updated.

KIESA is the public agency mandated to promote and support SMEs, and operates under the Ministry of Trade and Industry. It is the dedicated institution for providing BSSs to SMEs. In 2018 it had a staff of 25 and a budget of EUR 5.2 million to cover these activities (Republic of Kosovo, 2018[30]). In 2017, KIESA funded a training needs analysis which surveyed 600 micro-enterprises, 150 small enterprises, and 50 medium-sized enterprises (KIESA, 2017[31]). Although the study's findings have not been considered in the preparation of Kosovo's BSSs, it has the potential to help tailor the supply of BSSs more closely to SMEs' needs in the future.

In 2017, KIESA offered support to SMEs for participating in international trade fairs; organised promotional events (e.g. the Women in Business trade fair, and a business plan competition for young entrepreneurs); and offered the two voucher schemes mentioned above. The total amount allocated to both voucher schemes in 2017 was EUR 50 000 (EUR 25 000 for the consultancy voucher and EUR 25 000 for the production certification voucher). The consultancy voucher covers 50% of the beneficiary's costs for receiving consultancy advice, up to a maximum amount of EUR 50 per day for up to 12 days. The beneficiary is required to cover the consulting costs in full and the costs are reimbursed after project completion. The voucher scheme for product certification co-finances the construction, metal processing, and wood and furniture processing sectors. Product certification is co-financed at a rate of 75%, with an upper limit of EUR 10 000 per beneficiary. In order to benefit from the 75% reimbursement, the SME must prove that its product has been successfully certified by an accredited conformity assessment body. Under these voucher schemes, SMEs can freely choose their private sector consultants or trainers.

KIESA also launched a new co-financing scheme in 2018, which co-finances up to 75% of SMEs' purchases of machinery for production purposes. The budget for this scheme was EUR 1.5 million in 2018 and 36 SMEs had already benefitted at the time of writing.

While KIESA offers co-financing schemes to SMEs, it does not directly provide training courses or mentoring. In addition, the uptake of KIESA's co-financing schemes has been very low. In 2017, not one SME applied for the consultancy voucher and only five applied for the product certification voucher, but only one met the criteria. It is therefore not surprising that fewer SMEs have benefitted from BSSs in Kosovo than in other WBT economies. In 2017, only 37 (0.1%) of all SMEs in Kosovo used a BSS offered by KIESA, 36 of which were supported to attend a trade fair, while only one SME benefitted from the co-financing voucher for product certification. In comparison, 18.6% of SMEs in Turkey used a publicly co-funded BSS in 2017, and 3.9% of SMEs did so in the other five Western Balkan economies on average.

KIESA uses surveys to collect feedback from SMEs on its co-financing schemes, although to date it has not used the results to adapt its BSSs. In addition, KIESA submits its annual reports to the Ministry of Trade and Industry, which feeds relevant information and data into the annual government reports.

The way forward for Dimension 5a

Despite Kosovo's improvement in providing BSSs, challenges remain. The following steps will help to improve the situation:

- **Tailor business support services more closely to SMEs' needs by using the training needs analysis results**. KIESA has not yet used the results of the training needs analysis of SMEs which it funded in 2017. Similarly, KIESA does not use SMEs' feedback on its co-financing schemes to further improve them. KIESA should make better use of these inputs to fill the gaps in BSS provision, to better target the support provided and to create more effective provision systems. Doing more to take the training needs analysis results into account would help KIESA and other relevant institutions to ensure that BSS programmes and initiatives are tailored to the characteristics and dynamics of micro and SME beneficiaries, as well as to the industry sector they belong to, and to their stage of development and actual experience in the market. Moreover, Kosovo should also consider calling in an independent institution to conduct an in-depth evaluation of its BSS provision, to shed light on the reasons for the low uptake of its services by SMEs, and assess the impact of its existing BSS programmes against key performance indicators.
- **Improve SMEs' uptake of BSSs by redesigning existing schemes.** Given the low number of applications, KIESA should consider redesigning its application

and co-financing procedures. For example, the fact that beneficiaries are only reimbursed after the project has ended might deter micro and small companies with scarce resources from applying. Instead, KIESA could stagger the reimbursement to provide a first tranche after officially accepting the SME onto the scheme, and a second tranche after successful project completion. KIESA could also consider tailoring the co-financing support according to enterprise size, thus co-financing a higher percentage of costs for micro and small companies. KIESA could also make it easier to apply, for example by waiving the need to provide official documents that it could source directly itself from the relevant public institutions, such as the business registration certificate, the fiscal number and tax certificate, and bankruptcy record. Strengthening co-operation with chambers of commerce to raise SMEs' awareness of the BSSs available would also present an additional opportunity to increase SMEs' interest in them.

- **Offer a wider range of free-of-charge BSSs.** Services provided by public institutions are an important instrument to ensure SMEs' access to crucial information, advice, training and mentoring. While KIESA offers co-financing schemes to SMEs, it does not directly provide training or mentorships. Although offering co-financed BSSs helps to stimulate BSS provision through the private sector, relying exclusively on them risks moving BSSs out of reach for micro and small enterprises, which are generally unable to afford private consultancy fees, even if co-financed. Therefore, KIESA should complement its BSS offer of co-financing schemes with training and advisory services which are directly provided by its staff and free of charge.
- **Introduce a quality assurance mechanism for private sector consultants and trainers** used by SMEs under co-financed support programmes. SMEs in Kosovo can currently freely choose the private sector consultants they use under KIESA co-financing schemes. KIESA should consider introducing an accreditation system to make sure that private sector providers have a required minimum level of experience and qualifications. It could then limit SME co-financing support for private sector consultants and trainers to accredited providers. This would guarantee the quality of services delivered, have a positive impact on SMEs' growth and encourage SMEs to be more enthusiastic about seeking the benefits of privately delivered BSSs.
- **Ensure that KIESA possesses the human resources necessary to increase quality BSS provision**. KIESA does not have a legal department and its personnel often lack the legal skills necessary to draft contracts and other legal documents in the most efficient manner. Its staff also need to be well-versed in enterprises' challenges and needs, in order to be able to develop tailored export promotion programmes for SMEs operating in a variety of sectors.

Public procurement (Dimension 5b)

Kosovo received the weighted score of 4.09 for this dimension (Table 15.12), which is the second-best score in the region. It is also an improvement on its 2016 score of 3.5 (Figure 15.1).

Table 15.12. Scores for Dimension 5b: Public procurement

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 5b: Public procurement	Sub-dimension 5b.1: Public procurement	Policy and regulatory framework	4.76	3.92
		Implementation	4.28	4.05
		Monitoring and evaluation	2.67	3.24
		Weighted average	**4.09**	**3.86**
Kosovo's overall score for Dimension 5b			**4.09**	**3.84**

State of play and key developments

The basic legal act regulating public procurement is the Public Procurement Law (PPL) of 2011. The PPL was amended twice in 2016, bringing it more in line with the EU *acquis*. In particular, Article 60A on the domestic preference system was abolished in accordance with the requirements of the Stabilisation and Association Agreement. The 2016 amendments to the PPL changed provisions on fees paid by aggrieved economic operators complaining against decisions of the contracting authorities. Fees are now equal to 1% of the value of the estimated contract value or, in some cases, of the bid, but to not less than EUR 100. The 2016 amendment increased the maximum amount of fees to EUR 5 000. Activities for developing the public procurement system are detailed in the National Public Procurement Strategy (2017-2021) and the Action Plan (2017-2019) and published on the Public Procurement Regulatory Commission's (PPRC) website. However, the strategy does not provide any actions specifically targeted at SMEs.

The public procurement system is based on the principles of transparency, equal treatment and non-discrimination of economic operators. Contracting authorities are forbidden to conduct any procurement activity in a manner that reduces or eliminates competition among economic operators or that discriminates against or in favour of one or more economic operators. Access to public procurement is open to economic operators regardless of their organisational form: natural or legal persons. Requests to participate or tenders may be also submitted by a group of economic operators. These groups may not be required to assume a specific legal form in order to submit the tender.

The PPL does not include provisions related specifically to SMEs. SMEs are, however, explicitly mentioned in the provisions supporting the implementation of the PPL, although only in the context of division of contracts into lots. Public contracts may be divided into homogenous or heterogeneous lots. Operational guidelines suggest that, in order to encourage the involvement of SMEs in public procurement, limiting the number of lots which may be applied for should be a preferred option if there are many SMEs potentially interested in a given procurement. Any selection criteria used should be limited to those which ensure that only economic operators possessing the professional, financial and technical ability necessary to fulfil the terms of the concerned contract will be considered qualified to receive a contract award or an invitation to tender. Any documentary and information requirements must be limited to those that allow the contracting authority to verify that the concerned economic operator, first, is not subject to exclusion from the procedure and, second, if applicable, satisfies the minimum selection criteria specified in the contract notice and the tender dossier. All selection criteria and documentary and information requirements must be both directly relevant and in proportion to the subject matter of the concerned contract.

Kosovo has already implemented some initiatives beneficial for SMEs provided for in the 2014 EU Public Procurement Directives. For example, economic operators' minimum annual turnover should not exceed twice the estimated contract value. Financial requirements must be expressed in figures and should refer at most to the last three financial years. In exceptional cases when a minimum turnover is required in a specific field covered by the contract, this turnover should not exceed 1.5 times the anticipated contract value. Economic operators should, as a general rule, be permitted to satisfy such a requirement by submitting, where relevant and appropriate, one or more of the references listed in the PPL. However, if for any valid reason the economic operator is unable to provide the references requested by the contracting authority, the operator can demonstrate its economic and financial standing using any other document that the contracting authority considers appropriate.

The PPL also contains rules on subcontracting. Economic operators must indicate in their tender any part of the contract that they intend to subcontract to third parties and each proposed subcontractor. Each proposed subcontractor must meet eligibility requirements and must submit evidence that it meets the eligibility requirements. The PPL does not limit the share of subcontracting allowed, but according to the operational guidelines subcontracting cannot exceed 40% of the contract value. Contracting authorities may provide direct payments to subcontractors. The economic operator must notify the contracting authority of any changes in subcontracting plans made after the submission of the tender. The contracting authority may reject any proposed subcontractors unless it meets the conditions of eligibility.

The PPRC is the central public procurement body responsible for the development, functioning and oversight of the public procurement system in Kosovo. Its competences are outlined in the PPL and include procurement monitoring; development and dissemination of procurement manuals, guidelines and standard templates; provision of support and advice to procurement actors; raising awareness of public procurement regulations; and supervision of the functioning of the procurement system.

The Procurement Review Body (PRB) is the first-instance review body for complaints concerning public procurement. Provisions for remedies available to economic operators against decisions taken by contracting authorities largely comply with EU requirements, although some inconsistencies remain, such as those related to alternative penalties. The PRB's authority to impose a fine of EUR 5 000 on a complainant if the complaint is deemed frivolous may be considered a limitation on the complainant's access to justice. However, apparently the PRB does not use this option in practice.

The way forward for Dimension 5b

Kosovo has a solid institutional and regulatory framework in the field of public procurement which provides for a number of solutions relevant to SMEs. Going forward, it should place more emphasis on the following points:

- **Further align the national legislation with EU rules and international good practice**. In particular:

  - Remove limitations concerning recourse to subcontracting, such as those regarding the maximum percentage share of the procurement contract which may be subject to subcontracting.
  - Adjust review provisions to the provisions of the EU Remedies Directives.

- **Further reduce the administrative burden involved in participating in public procurements**. In particular, legal provisions should stipulate that supporting documents should only be required from bidders whose offers were evaluated as the most advantageous. Bidders should only be required to submit a declaration confirming that they satisfy the requirements imposed by the contracting authority and should be able to provide documentary evidence if the contracting authority demands it. The mandatory introduction of e-procurement, in particular for submission of tenders and requests to participate, in accordance with the requirements of 2014 EU Public Procurement Directives, would also reduce bidding costs, facilitating SMEs' access to public contracts.
- **Increase the use of non-price criteria for awarding contracts** to enable public buyers to receive the best value for money. In particular, contract awards should be based on the most economically advantageous tender. Public procurement institutions should facilitate the application of non-price criteria by supporting contracting authorities with manuals, guidelines, instructions and examples of good practice.
- **Improve the monitoring of the public procurement system, and place special focus on collecting data, evaluating SMEs' participation in public procurement and analysing the obstacles faced by SMEs** in access to public procurement markets. These include the costs of access to legal protection (e.g. to challenge decisions of contracting authorities to independent review bodies).

Access to finance for SMEs (Dimension 6)

Kosovo has made progress in certain key areas that facilitate access to finance. With an overall score of 3.33, Kosovo ranks in the lower half of the region, though virtually tied with Albania, Bosnia and Herzegovina, and Montenegro (Table 15.13). Recent reforms, most notably amendments to the bankruptcy law and the launch of the Kosovo Credit Guarantee Fund, have improved Kosovo's scores for the legal and regulatory framework and bank financing.

Table 15.13. Scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	3.55	4.20
		Registers	4.92	4.58
		Credit information bureaus	4.22	4.55
		Banking regulations	3.50	3.79
		Stock market	1.00	2.93
		Weighted average	**3.67**	**4.14**
	Sub-dimension 6.2: Bank financing	Banking lending practices and conditions	3.08	2.92
		Credit guarantee schemes	3.00	2.30
		Weighted average	**3.05**	**2.67**
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	4.67	3.57
		Leasing	2.54	2.84
		Factoring	1.50	2.45
		Weighted average	**2.90**	**2.95**
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	2.11	2.32
		Design and implementation of government activities	2.29	2.48
		Monitoring and evaluation	1.00	1.48
		Weighted average	**1.97**	**2.22**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	2.89	2.44
		Monitoring and evaluation	1.00	1.19
		Weighted average	**2.51**	**2.19**
Kosovo's overall score for Dimension 6			**3.33**	**3.53**

State of play and key developments

Legal and regulatory framework

Kosovo has a well-regulated legal framework for secured creditors with recent reforms bringing these further into line with established best practices: a 2016/17 law prioritising pay-out and reforming the wider reorganisational procedures has simplified the bankruptcy process and has contributed to Kosovo's striking increase in the World Bank's Doing Business score (World Bank, 2017[17]).

In the field of banking regulation, the implementation of Basel II is continuing. While enforcement of Basel-mandated leverage indicators is prioritised within the wider alignment, there is no evidence a dedicated timeline has been laid out. Given its use of the euro, Kosovo's SME borrowers are less exposed to foreign exchange risks.

A cadastre is available and on line – split into a graphical map and textual part indicating individual ownership, with the map accessible to the wider public and the latter limited by data protection legislation to authorised bodies such as banks. In practice, however, its use is hindered by the prevalence of informal construction and missing documents from the 1990s. The registration system for security rights over movable assets is also on line and publicly accessible, although this requires a personalised login, after which users can register pledges through the system as well. The Central Bank of Kosovo also oversees a public credit information system, and an individual's right to access their own information is enshrined in law. This system was overhauled in June 2017 and now includes live information feeding to and from relevant stakeholders, as well as larger scale data analysis for institutions. There is still no capital market in Kosovo.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Bank lending to SMEs is very prevalent in Kosovo, with the sector making up 64% of total outstanding loans from commercial banks – almost twice the regional average of 34% (IMF, 2016[32]). While the overall base may be comparatively low – Kosovo's ratio of credit to GDP is among the lowest in the region at 40% – the banking sector enjoys high liquidity (with non-performing loans below 3%) and an annual growth in total assets of 6% as of the second quarter of 2018.

In the sphere of government support schemes for SME access to finance, the Kosovo Credit Guarantee Fund (KCGF) works with banks, as well as microfinance and non-bank financial institutions, guaranteeing up to 50% of the principal of the loan. Established in 2016, the fund reported a portfolio of almost 1 550 loans for a total approved loan amount of EUR 59 million as of July 2018, compared to 350 loans and EUR 16 million in loan amounts in 2017, suggesting greater demand for this type of financial support (KCGF, 2018[33]). However, these numbers still represent only a small fraction of the wider market and banks appear to be hesitant to use the fund due to the current flat fee of 2% that applies to each registered institution. From an SME perspective, the KCGF does not offer complementary services, such as technical assistance, advice or training programmes and lacks both independent monitoring and private sector participation. It remains largely funded by donors, who also appoint four out of the seven board members.

Kosovo has a well-developed market for microfinancing, with 17 microfinance institutions (MFIs) operating in 2017. While a doubling of profits across the sector in 2017 suggests increasing sustainability, the sector continues to face the limitations of operating as non-government organisations (NGOs), with the exception of one MFI which is registered as a limited company. Helping to transform their legal status is one of the greatest upcoming policy challenges in this sphere. The central bank's 2017 statistics show that loans to enterprises have seen remarkable year-on-year growth of above 40%, though this may also be due to an increase in the formalisation of clients registering as enterprises (Central Bank of the Republic of Kosovo, 2017[34]). A new draft law aimed at expanding MFI activities by allowing the issuance of electronic money and international payment services, while doubling the current maximum exposure to a single client, was published for public consultation in 2017.

Leasing is a growing source of financing for SMEs in Kosovo, with July 2018 data showing total outstanding amounts of EUR 33.2 million compared to EUR 26 million the year before (Central Bank of the Republic of Kosovo, 2018[35]). Leasing has been regulated since the passing of a dedicated law in 2009 covering all areas widely considered to be best practice, including clear definitions and rules on repossession. Leasing of equipment (rather than just vehicles) is also offered and the official statistics break down take-up by category. In the field of factoring law, the Central Bank has co-operated with the EBRD on the drafting of dedicated regulations, formally adopting them in October 2018. These regulations, aligned with international best practice, outline types of factoring, the contracts required, and the reporting and supervision of factoring activities.

Venture capital activities are regulated in principle, though no meaningful venture capital investments have yet been made in the economy and there is no evidence to suggest a structured review of venture capital activities going forward. In contrast, business angels are relatively active in Kosovo, primarily involving smaller investments but at a rate comparable to larger economies. With one active network, Kosovo saw 15 separate investments in 2017 (compared to 19 in Greece and 16 in Slovenia, for example), with a cumulative volume of EUR 600 000, compared to EUR 2.4 million in Greece and EUR 2.5 million in Slovenia (EBAN, 2018[36]).

Financial literacy

The supporting environment for financial literacy in Kosovo is similar to most economies in the region: training courses are organised by government bodies, but without an overarching monitoring and evaluation framework. The Central Bank of Kosovo officially launched a Financial Education Programme in October 2017 and organises various training courses within this framework. These courses are aimed primarily at the wider population, including awareness raising for primary and secondary school students on the importance of financial diligence, savings and an introduction to the basics of personal finance. However, as is often the case in this field, this programme lacks a formalised monitoring or impact evaluation framework.

The way forward for Dimension 6

Kosovo has made notable improvements to support SMEs' access to finance, although additional legislative reforms could go a long way to widen the sources of finance and ensure that government support mechanisms have maximum effect. Other useful steps include:

- **Scaling up and reviewing the KCGF.** While the introduction of the fund has been an important step, it has substantial room to grow. A review of its attractiveness to banks – including its pricing model – as well as a formal assessment of its performance, would help to increase its effectiveness. Expanding the KCGF to also cover MFIs would also enlarge its reach to micro enterprises, who are the group least served by financial actors in the market. In addition, including technical and qualitative support and training schemes for borrowers may be an effective next step for increasing its reach.
- **Introducing planned factoring and reverse factoring legislation and considering a venture capital review.** In the field of non-bank financing, the introduction of the planned dedicated factoring law could introduce another source of capital for SMEs, particularly by alleviating cash-flow bottlenecks.

Similarly, a comprehensive review of existing venture capital regulations, and subsequent reform encouraging fund activities, could channel additional direct investment towards Kosovo's SMEs, particularly in light of its large diaspora population. Encouraging accelerators to prepare start-ups for venture capital investment may also increase investment opportunities in that field.

- **Formalising financial literacy support.** Introducing a codified assessment framework for the government's financial literacy efforts, including set performance indicators for the various target demographics – from primary school children to existing entrepreneurs – would allow the fine tuning and adjustment of these schemes to ensure maximum reach and effectiveness.

Standards and technical regulations (Dimension 7)

Kosovo's performance in the area of standards and technical regulations has stagnated since the last assessment. With a score of 3.60, it ranks second last among the assessed economies (Table 15.14). Although certain progress has been achieved in overall co-ordination and general measures for quality infrastructure, Kosovo is still in the early stages of preparation concerning alignment with the EU *acquis* on the free movement of goods.

Table 15.14. Scores for Dimension 7: Standards and technical regulations

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures		2.75	3.12
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	4.13	3.87
		Standardisation	3.88	3.97
		Accreditation	4.62	4.53
		Conformity assessment	3.60	3.65
		Metrology	3.94	4.47
		Market surveillance	3.80	4.43
		Weighted average	**3.99**	**4.15**
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	3.50	4.24
		SMEs' participation in developing standards	2.50	2.57
		Financial support to SMEs	1.80	2.39
		Weighted average	**2.60**	**3.07**
Kosovo's overall score for Dimension 7			**3.60**	**3.83**

State of play and key developments

Overall co-ordination and general measures

The Ministry of Trade and Industry (MTI) is in charge of co-ordinating quality infrastructure and harmonisation of technical legislation with the EU *acquis* in the area of free movement of goods. The MTI's Quality Infrastructure Division has developed a strategy for quality infrastructure in Kosovo as a part of the Private Sector Development Strategy 2018-2022, with targets linked to each "pillar" of quality infrastructure. However, many of the planned activities lack indicators to measure performance.

Kosovo lacks a designated portal to provide the relevant information to SMEs that would like to export to the EU Single Market. Currently, enterprises can find some information (export statistics, export events, etc.) on the websites of the MTI and KIESA, but the information is not tailored for SMEs and not specific to the EU Single Market. Although the Private Sector Development Strategy envisages establishing a single contact point for trade in services, no such initiatives seem to be in the pipeline for trade in products.

Harmonisation with the EU acquis

The number of technical regulations transposing EU directives has increased during the reference period. In 2017, for example, EU directives on lifts and safety components for lifts, as well as on labelling and marking of textile products, were transposed. The new law on Technical Requirements for Products and Conformity Assessment (Republic of Kosovo, 2018[37]) was adopted in May 2018. The adoption of new technical regulations, such as on gas appliances, is also planned under the Private Sector Development Strategy 2018-2022 and the National Programme for Implementation of the SAA as well as the enforcement of regulations already adopted, including for lifts and safety components for lifts.

The new Law on Standardisation, which entered into force in February 2018, has been aligned further with the EU *acquis*. It now establishes the framework for the diversification of services offered by the Kosovo Standardisation Agency (KSA) to its stakeholders. However, the KSA is still the only standards development body in the WBT region that is not a full or an affiliate member of the European Committee for Standardization/European Committee for Electrotechnical Standardization (CEN/CENELEC). It has conducted a needs analysis for CEN/CENELEC membership, albeit with the ensuing objective of participating in the General Assembly of CEN/CENELEC by 2020, rather than of having actual membership. The KSA also signed a licensing agreement in 2017 with CEN/CENELEC for direct access to EU standards.

Kosovo does not develop its own standards but only adopts EU standards. It has made progress, adopting 650 European standards in 2017 alone. Even so, it has only adopted around half of the European standards in total. The KSA's administrative capacity remains critically low, hindering it from stepping up adoption efforts. In 2018, it had only seven permanent employees. Moreover, it neither has its own budget nor a bank account. The lack of an e-commerce function prevents the KSA from selling standards on line. Moreover, its limited revenue streams are channelled directly to the state budget, thwarting any incentives to engage in additional revenue enhancing activities.

Kosovo still lacks a systematic definition of national conformity assessment infrastructure needs (OECD, 2018[10]). The new Law on Technical Requirements for Products and Conformity Assessment brings assessment procedures completely in line with Decision 768/2008 EC on a common framework for marketing products. The law also adopts the principles applied in European harmonised legislation, i.e. the presumption of conformity and absence of mandatory standards. Although the latest EU *acquis* has been transposed in a number of areas, conformity assessment bodies (CABs) are yet to be prepared for accreditation in order to improve their level of competence and to achieve sustainable status of designated bodies. Currently, there are only 38 accredited CABs in the economy – 30 for testing and 8 for inspection. Conformity assessment services are not available for certain sectors, such as for lift and lift parts. Therefore, SMEs operating in several sectors are forced to seek those services abroad. Accreditation of new CABs remains a major issue for the national accreditation body, the Kosovo Accreditation Directory, which currently employs only three assessors. More recently, lack of qualified staff meant that it could not sign the EA Multilateral Agreement on accreditation of testing laboratories by the European co-operation for Accreditation (EA). Kosovo remains an associate member of the EA, and is also a member of the International Accreditation Forum and an associate member of the International Laboratory Accreditation Cooperation.

The metrology system in Kosovo is in the early stages of preparing for the free movement of goods. The Metrology Agency of Kosovo is operational and employs 17 staff. However, it lacks qualified staff in the areas of calibration and verification practices, both in the field of industrial and legal metrology (EU Office in Kosovo, 2018[38]). Moreover, metrological laboratories are not adequately supplied with relevant metrology equipment.

In 2017, new legal acts were prepared to transpose directives on non-automatic weighing instruments, pre-packaging and measuring container bottles and are awaiting approval in parliament. Currently, the metrology agency is not well integrated into European metrology systems but the Private Sector Development Strategy for the period 2018-22 sets a goal of membership of the European Association of National Metrology Institutes, International Organisation of Legal Metrology and the International Bureau of Weights and Measures by 2020.

Market surveillance is challenged by weak inter-institutional co-ordination of activities, in particular between the central and local authorities. However, co-ordination is expected to improve as local inspectors are being transferred to central market surveillance authorities under the Ministry of Trade and Industry. Moreover, the planned reform of market surveillance and general inspection activities for 2019 envisages an increase in the number of market surveillance inspectors. The number of product safety inspections decreased slightly in 2017 to 266 inspections, compared to 273 in 2015.

SMEs' access to standardisation

Kosovo has only basic measures in place to facilitate SME access to standardisation. To provide information on standards and raise awareness of their benefits, the KSA organised five promotion activities in 2017 in co-operation with the Kosovo Chamber of Commerce. A few of these activities were organised at universities. The KSA also provides practical guides on the benefits of using standards and standardisation, but they are only distributed as hard copies and no online versions are available. There is ongoing co-operation between the KSA and the Kosovo Chamber of Commerce to provide up-to-date information on standards for SMEs, albeit on an ad-hoc basis. The Kosovo Chamber of Commerce also organises regional meetings at its offices in seven regions to present new standards and advise SMEs on how to implement them. In addition, along with the Kosovo Business Association, it participates in the Professional Standardisation Council as the advisory body of the Kosovo Standardisation Agency (Box 15.5).

Box 15.5. The Professional Standardisation Council: Towards better private sector involvement in national standardisation

Kosovo established the Professional Standardisation Council (KPS) in 2018 with the objective of providing for a balanced representation and involvement of all the stakeholders in national standardisation activity. Although similar advisory bodies exist in other WBT economies, they are usually at an expert level and do not include non-government and business representatives. Administrative Instruction of the Ministry of Trade and Industry No. 08/2018 defines the rules of procedure, competences and functioning of the KPS. The council is composed of nine members, including four line ministry representatives, two NGOs, one representative of the scientific community, one from the Kosovo Chamber of Commerce and one from the Kosovo Business Associations. The KPS serves as an advisory body of the Kosovo Standardisation Agency with the following competences:

- to review standard work plans, as well as analyse and oversee activities related to their implementation
- to issue recommendations, promote standardisation, and establish and support initiatives to conduct standardisation activities
- to support AKS in meeting admission requirements for European and

international standardisation organisations.

To encourage participation in the council, all meeting expenses are covered by the Kosovo Standardisation Agency and KPS members also have a right to a 50% discount when obtaining standards.

Source: Republic of Kosovo (2018[39]), *Administrative Instruction No. 08/2018 on the Professional Standardisation Council*, https://mti.rks-gov.net/desk/inc/media/E6DD3362-7916-4956-B05A-E5B803776984.pdf.

As mentioned above, the KSA does not develop national standards; for the time being it is solely adopting EU standards. Kosovo has not introduced any financial or other measures to encourage SME involvement in the technical committees that analyse priorities for adopting EU standards and lead the overall adoption process. Moreover, the travel costs of SME representatives on the committees are not covered, and there are no information and communications technology (ICT) tools to ease their participation. However, participation in the meetings of the technical committees remains free, and the KSA formally invites all SMEs to do so on its website.

Discounts of up to 50% on the purchase of standards are offered for members of the technical committees, but there are no support measures for the overall SME population to purchase standards. In terms of financial support for implementing standards, Kosovo has introduced a voucher scheme for product certification but in 2017 only one SME on the preliminary list of beneficiaries was declared eligible.

The way forward for Dimension 7

Despite Kosovo's progress in adopting a legislative framework for quality infrastructure and transposing EU technical regulations, key challenges remain to be addressed through the following measures:

- **Enhance the capacity of the Kosovo Standardisation Agency (KSA).** With around 9 500 European standards adopted by the end of 2017, Kosovo lags behind all the WBT economies in its transposition efforts. Its current adoption rate of European standards, at around 50%, needs to increase to 80% for Kosovo to achieve one of the requirements of full membership of the European organisations CEN/CENELEC. To accelerate adoption of European standards, the institutional capacity of the KSA should be strengthened. Currently, the KSA does not have its own budget or bank account and all the revenues it collects are funnelled into the national budget. Moreover, Article 12 of the Law on Standardisation, which entered into force in February 2018, states that the national budget and donor funds are the only sources of financing for the KSA. This further weakens incentives to increase revenues from membership fees, sales of standards or sales of other services. Keeping the revenues that are collected by the KSA within the institution would increase its level of financial independence and encourage diversification of services for stakeholders. Moreover, there is a need to increase its number of technical committees (which currently number 19) and to equip the KSA with the human resources required to enhance its competence and efficiency for adopting European standards.
- **Improve support to SMEs to implement standards.** SMEs often do not have the time, personnel or financial resources to engage in implementing standards. With 650 EU standards adopted by Kosovo in 2017 alone, SMEs can also

struggle to identify standards relevant for them – especially if they are not properly involved in the process. Although the draft Private Sector Development Strategy 2018-2022 foresees organising information sessions and preparing promotional materials on the role of standards in economy, there is a lack of tailored measures to better communicate the adoption of new standards to SMEs. KSA could therefore organise roadshows and prepare newsletters which are targeted at specific industry sectors and which take into account characteristics and challenges of SMEs operating in those sectors. The guidelines developed in Italy by *Confartigianato Imprese* are a good example (Box 15.6). Kosovo should also improve the provision of financial support to SMEs for implementing standards by first evaluating the current voucher scheme for product certification. Since only one SME was declared eligible to benefit from the scheme in 2017, Kosovar authorities should investigate whether the application process for the voucher scheme is too complex and burdensome for SMEs, or whether it is simply not well promoted. Moreover, the government should roll out new financial instruments to support SMEs in their implementation of standards, such as annual grants for SMEs operating in priority sectors.

Box 15.6. *Confartigianato Imprese*: SME guidelines for implementing the CE mark

Confartigianato Imprese is an Italian trade association representing the interests of Italian craftspeople, trades and SMEs. Many SMEs face problems with the implementation of New Approach directives,[1] in this case the Construction Products Directive, and related standards. These confuse many employees. To solve this problem, *Confartigianato* has established an ad-hoc Technical Work Group on CE marking, working together with experienced territorial partners who have already been applying the standards for a long time. This group has developed guidelines for three types of product that mainly interest the small craft enterprises:

- industrial, commercial and/or garage doors and gates (standard: EN 13241-1)
- shutters and blinds (EN 13659)
- windows and gates (EN 14351-1)

The publications include:

- guidelines addressing topics covering technical guidance to concrete operating instructions
- a frequently asked questions (FAQ) document in which some of the most important issues are explained so that artisan entrepreneurs can easily understand the three possible methods of CE marking
- reports containing best practice descriptions based on consulting services on CE marking offered by some territorial associations
- Standards manuals on factory production control which provide producers with tips on controlling the production process, thus allowing them to guarantee that the performance verified from the beginning of the tests (Initial Type Testing) continues to be valid and equal for all subsequent products, including innovations in the production process.

These guides can be used by *Confartigianato* colleagues in the consultation services on CE marking they offer to various enterprises.

1. The European Union adopts legislation (EU Directives) that defines essential requirements for safety and

other aspects of public interest which should be satisfied by products and services being sold in the Single Market.

Sources: De Vries et al. (2009[40]), *SME Access to European Standardization: Enabling Small and Medium-Sized Enterprises to Achieve Greater Benefit from Standards and from Involvement in Standardization*; Confartigianato (2018[41]), *Confartigianato website*, www.confartigianato.it.

Enterprise skills (Dimension 8a)

Kosovo scores 2.78 for enterprise skills, which is around the regional average (Table 15.15).

Table 15.15. Scores for Dimension 8a: Enterprise skills

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 8a: Enterprise skills	Sub-dimension 8a.1: Enterprise skills	Planning and design	4.17	3.38
		Implementation	2.25	2.83
		Monitoring and evaluation	2.00	2.29
		Weighted average	**2.78**	**2.87**
Kosovo's overall score for Dimension 8a			**2.78**	**2.87**

State of play and key developments

Kosovo's private sector consists almost entirely of SMEs. To ensure their sustained growth, a training needs analysis has been conducted biennially (in 2012, 2015 and 2017) by the Ministry of Trade and Industry and KIESA. The aim is to understand both training and counselling needs and gaps in training provision – including for women – and to anticipate skills needs. The analysis and partnership structure lays a foundation on which to build an understanding the skills implications of smart specialisation, an approach which Kosovo began implementing in 2018.

Inter-institutional collaboration between the Ministry of Trade and Industry, KIESA and the Ministry of Innovation and Entrepreneurship has meant that the results of the training needs analysis have been used to inform decision making across ministries. KIESA sits on the board of the Innovation and Entrepreneurship Council and the results of the SME training needs analysis were used in designing the Innovation Fund, led by the Ministry of Innovation. Through the Fund for Innovation and Technology Development, Kosovo demonstrates good practice in funding training SME support institutions to improve investment readiness.

Kosovo also demonstrates good practice in using SME training needs analysis to inform its EU Economic Reform Programme (Box 15.1). Education and skills are explicitly listed as the seventh priority reform group, and the skills gap between education/training and labour market needs is highlighted as a binding constraint for growth and employment.

Kosovo has made good progress in supporting SMEs in the digital economy. The Innovation Centre Kosovo (ICK) provides a wide range of training courses to SMEs in digital skills, including online courses, the costs of which are partly covered by the Ministry of Innovation and Entrepreneurship. The importance of SMEs in the digital economy is also reflected in the Economic Reform Programme, with the fifth priority reform group addressing innovation, research and development and the digital economy. The Ministry of Economic Development is looking to implement a project to broaden access to and use of ICT. This project for enhancing the competitiveness of Kosovo's digital economy, funded by the Instrument for Pre-accession Assistance, is planned to start by the end of 2018.

No progress has been made on monitoring, which continues to be conducted at project level only, while evaluation is not conducted at all.

The way forward for Dimension 8a

Despite Kosovo's progress in building the skills of SMEs, remaining key challenges could be addressed through the following measures:

- **Ensure better skills intelligence for more meaningful monitoring and evaluation.** Kosovo has continued to progress in generating wider information on SME training needs. However, regular and reliable data on SME skills remains a challenge. This spills over to monitoring and evaluation – both of which remain weak, but especially evaluation. In order for policy makers to better match Kosovo's human capital base with its economic structure, improving skills intelligence is critical.
- **Strengthen co-ordination mechanisms.** Currently, a new ministry, the Ministry of Innovation and Entrepreneurship, collaborates with the Ministry of Trade and Industry and KIESA on training needs analysis. Strengthening this co-ordination mechanism by formalising and systematising collaboration and opening it up to a broader array of actors (such as statistical offices, employment services, chambers of commerce, and education and training providers) would help reduce information gaps on SME skills. This dedicated co-ordinating body or mechanism would also help to broaden out monitoring from donor-financed projects only, in order to translate skills intelligence into education and training and policy action that supports SMEs today and in the future.
- **Strengthen start-up training and accessibility through a searchable web platform.** Kosovo does not systematically provide government-financed training programmes specifically for start-ups. The new Fund for Innovation and Technology Development recently launched an open call to support a selected number of start-ups financially in the ICT and technology sector. Start-up training could be strengthened, for instance by featuring start-up training more prominently in conjunction with existing events such as the Techstars Startup Week Kosovo (held in March 2018). The event included mentoring sessions for start-ups led by a foreign mentor. Developing a permanent and easy-to-search online platform (as opposed to an event-specific website) where education and training providers can showcase mentoring, coaching and different types of workshops, would promote a better match between education and training and demand. It would also help connect start-ups with people and networks that can help them develop their company. Finally, making training, mentoring and coaching a precondition for receiving grants or loans could serve as an important boost to improve skills and build up networks for start-ups. Currently such non-financial support is mainly donor driven.
- **Review key policy documents that steer education and training provision to strengthen women's entrepreneurial skills and competences.** Kosovo needs to update its main policy documents, namely the Private Sector Development Strategy (2013-17) and the SME Development Strategy (2012-16), to serve as references on women's entrepreneurship. These documents are useful interfaces for steering relevant donor support to SMEs as the main drivers of innovation, economic growth and competitiveness in Kosovo. Moreover, moving forward with smart specialisation (see below) will open up an opportunity to develop a shared vision across policy areas.

- **Build SME skills into smart specialisation strategies**. In moving forward with smart specialisation, Kosovo will need to identify the skills required by the smart specialisation niches and the impact this has on demand for labour. Education and training policies and relevant public investment need to adapt in order to ensure a supply of skilled new labour and improve the skills of the existing workforce.

Innovation policy for SMEs (Dimension 8b)

With a score of 2.40, Kosovo is one of the poorest performers on innovation policy in the region (outscoring only Bosnia and Herzegovina, at 1.86) (Table 15.16). However, Kosovo has also showed the greatest improvement since the 2016 assessment, starting from a low base of 1.86 (Figure 15.1). It is evident that innovation policy is gaining traction among policy makers in Kosovo and there is greater attention on the importance of innovation for overall competitiveness.

Table 15.16. Scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 8b: Innovation for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	2.90	3.46
		Co-ordination of innovation policy	2.33	2.97
		Implementation of innovation policy	2.43	3.04
		Weighted average	**2.55**	**3.15**
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.00	2.99
		Technology extension services for established SMEs	1.00	1.74
		Weighted average	**2.20**	**2.49**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	3.40	3.76
		Indirect financial support	1.00	1.38
		Weighted average	**2.44**	**2.81**
	Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	2.00	2.52
		Institutional infrastructure for industry-academia co-operation	2.40	2.72
		Intellectual property rights	2.50	3.00
		Weighted average	**2.26**	**2.70**
Kosovo's overall score for Dimension 8b			**2.40**	**2.86**

State of play and key developments

Policy framework for innovation

The government has improved the institutional framework for innovation policy by establishing the Ministry for Innovation and Entrepreneurship in 2017. This embarked on drafting the Strategy for Supporting Innovation and Entrepreneurship (2019-2023). However, although the strategy was drafted as of September 2018, it had yet to be adopted by the government at the time of writing. The ministry has also finalised the concept document on a Law on Innovation, but this was still pending approval.

The ministry is not designed as an independent implementing agency for innovation, but it does have a specific budget allocation for innovation. Further efforts are needed to raise its human resources capacity, since it had only six staff in 2018.

In December 2017, a National Council for Innovation and Entrepreneurship was established, which includes representatives of relevant ministries (Education and Science, Finance, European Integration) as well as academia and business (chambers of commerce). It has only an advisory role, and it meets once a month.

Government institutional support services for innovative SMEs

Incubators exist in Kosovo and the leading institutions in this area are the Innovation Centre Kosovo (ICK) and Gjirafa Lab. Both of these institutions are donor-based initiatives with the ICK receiving support through Norwegian, Swedish and German donor programmes and EU grants, and Gjirafa Lab being a United States Agency for International Development (USAID) project. The Jakova Innovation Center was established by the Ministry of Trade and Industry (MTI) with the support of the US Embassy in Kosovo.

The 2018 budget of the Ministry of Innovation foresees an allocation of EUR 1.1 million for the establishment of regional innovation centres, and to that end, the ministry has signed agreements with the Municipality of Ferizaj and the University of Hasan Prishtina for the establishment of two "innovation and entrepreneurship" centres in Ferizaj and Pristina respectively. These centres represent a partnership between the central and local levels on the one hand, and academia and the private sector on the other. The allocated funds will be used to equip these centres with specific labs and equipment based on the needs of start-ups and SMEs.

Government financial support services for innovative SMEs

In 2018, a new fund for innovation dedicated to start-ups, SMEs and NGOs was launched in co-operation with the Gesellschaft für Internationale Zusammenarbeit (GIZ), which has allocated EUR 1.2 million to the fund, bringing the total amount to EUR 7.2 million. The fund is available to Kosovar micro, small and medium-sized enterprises in employment-relevant sectors that make use of potential international markets. The programme lists three sectors: agriculture, manufacturing and ICT. Its Opportunity Fund grant scheme targets companies, which introduce innovations in products, production processes or services that are relevant for export markets. The objective of this scheme is to attract the most innovative ideas with potential for exports and jobs. Kosovar companies that wish to obtain funding through the Opportunity Fund must meet the technical and procedural criteria, such as three years of experience or records of exports and/or potential to export.

Some tax incentives have been introduced to generally support SMEs but these do not provide direct incentives for private sector R&D expenditures. Purchases of ICT equipment have been exempted from VAT since January 2018. Although this a general measure it will also benefit innovative SMEs.

SME and research institution collaboration and technology transfer

Even though there are no collaborative grants which would finance joint business-academia research in Kosovo, the Ministry of Education, Science and Technology does offer innovation vouchers. The latest call for proposals for vouchers was launched on 1 October 2018, offering support of up to EUR 1 000 for individual companies. However, a similar MTI call in 2017 which planned to disburse EUR 25 000 in total yielded no results as companies were not interested in applying. This suggests that the programme will require significant redesign in order to achieve its purpose of forging connections between businesses and researchers. Late in 2017, the University of Pristina launched an innovation and entrepreneurship centre, supported by the Ministry of Innovation and Entrepreneurship. Although this centre does not serve the purpose of technology transfer, it has had good success in its first year with students showing great interest in participating in its entrepreneurship training and mentoring programmes. In 2018, a joint project was initiated with the Federal Government of Germany to transform the German KFOR Military Camp in Prizren into Kosovo's first ever science and technology park (Box 15.7).

Box 15.7. Kosovar-German Innovation and Training Park in Prizren

In 2016, the German and Kosovar governments reached an agreement to explore the feasibility of transforming the Prizren KFOR military camp area into the Innovation and Training Park (ITP). The idea to create the ITP stems from the example of similar parks opened in other countries, which bring academic expertise closer to business experience, stimulating technology transfer. The ITP in Prizren is scheduled to be operational at the beginning of 2019, when the 39 hectares of military camp area will be handed over to the Kosovar government.

The park is meant to include spaces for companies, vocational training, academic institutions, government institutions, as well as NGOs. Following the recommendations of the feasibility study (GIZ Kosovo, 2018[42]), the ITP will select companies and specialists based on their field of activity. To ensure the ITP's positive impact on jobs and economic growth in Kosovo, three priority sectors with the biggest growth potential were identified:

- ICT/technology-based firms
- agro/food processing
- creative and cultural industries.

Two cross-cutting areas for development were also recognised:

- vocational education and training
- research & development (R&D).

The mission of the ITP is to become Kosovo's central hub of innovation in the field of ICT, agro-food and creative industries. The ITP aims to provide a comprehensive array of services to the companies that join the park. It will offer co-working space, office space, and manufacturing and production sites. Moreover, the park will also help businesses develop through incubation, training, intellectual property management, technology transfer, financial support, and access to business angel networks. The ITP will also accommodate the needs of dual vocational education schools and training centres, which will be able to use its space to provide both vocational education and training tailored to the needs of the labour market, and to closely co-operate with businesses settled in the park.

In its first three to four years, before the ITP becomes financially sustainable, the Kosovar and German governments will financially co-support the project. Afterwards, the ITP will be financed through the profit generated by rent, and other fee-based services offered to clients. At the beginning of 2019, a public call for applications is planned to seek companies that want to operate in the ITP.

Sources: ITP Prizren (2018[43]), *The Kosovar-German Innovation and Training Park*, http://itp-prizren.com/wp-content/uploads/2018/10/Gizz-Leaflet-Trifold-ITP.pdf; GIZ Kosovo (2018[42]) *Feasibility Study: A Concept Proposal for the Future Use of the KFOR Camp in Prizren Kosovo*, www.alg-prizren.com/pdfs/GIZ-Feasibility-Study.pdf.

The way forward for Dimension 8b

Kosovo has shown positive momentum with its innovation policy design – this needs to be carried forward in implementing these policies. The following challenges remain:

- **Adopt an innovation strategy and carefully monitor its implementation.** Even though the national innovation strategy has been drafted, it is yet to be adopted. Once adopted, the roles of all actors, in particular the newly established Ministry of Innovation and Entrepreneurship, need to be clearly defined. The role of the National Council for Innovation and Entrepreneurship could be leveraged to monitor the strategy's implementation in a regular and transparent manner.
- **Invest more in R&D and use competitive project-based funding.** A strong research sector is extremely important for innovation. In Kosovo, R&D funding is low and allocated in a way that does not promote research excellence or relevance. Kosovo needs to invest more in R&D and introduce competitive project-based funding that would support its best researchers to work on research that is relevant to the private sector. This would in turn also help improve the economy's participation in the EU Horizon 2020 programme,[7] in which Kosovo participates as a third party, but with little success to date.
- **Improve the design of support instruments.** The fact that no companies applied for the EUR 25 000 in grants offered by the MTI in 2017 suggests flaws in the design of this support instrument. Kosovo could benefit from donor support to design innovation instruments based on good practice examples, especially those in other economies in the region. Once introduced, instruments need to be regularly monitored and evaluated to ensure that they are achieving their initial objectives.

SMEs in a green economy (Dimension 9)

Kosovo's performance in the area of SME greening remains quite weak, and its score, 1.92, has slightly deteriorated since the last assessment (Table 15.17).

Table 15.17. Scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.67	3.81
		Implementation	2.20	2.56
		Monitoring and evaluation	1.50	2.12
		Weighted average	**2.50**	**2.85**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	1.67	2.32
		Implementation	1.50	2.76
		Monitoring and evaluation	1.00	1.72
		Weighted average	**1.45**	**2.42**
Kosovo's overall score for Dimension 9			**1.92**	**2.61**

State of play and key developments

Framework for environmental policies targeting SMEs

None of the national strategy documents focus on SME-specific environmental policies and measures in Kosovo. The draft Private Sector Development Strategy (2018-2022) does not include any objectives or action items regarding SME greening, although it recognises increased energy efficiency and use of renewable energy as an "opportunity" for certain industries in which SMEs operate.

Elements of environmental policies that have relevance for SMEs are included in the following three strategies and related action plans: the Strategy for Environmental Protection (2013-2022), which is a central national environmental policy document; the Strategy for the Development of Energy Sector by 2030; and the Waste Management Strategy 2.0 (2017-2021). The first two strategic documents envisage energy efficiency improvements in the Kosovar private sector, but to date no significant measures have been implemented. According to the government, the limited realisation of these measures is explained by restricted budget allocations for them and significant delays in mobilising donor funds.

Incentives and instruments for SME greening

As in the last assessment, there are no financial incentives to encourage SME greening as this area is not considered a government priority. The same applies to regulatory instruments and green public procurement policies.

Prior to 2016, the Ministry of Environment and Spatial Planning and the Kosovo Environmental Protection Agency (KEPA) undertook certain actions to promote resource efficiency among SMEs, and to provide information on how to improve environmental performance through environmental management systems. During the reference period these activities were discontinued, however, and no similar support measures for SMEs were planned at the time of writing.

The way forward for Dimension 9

In order to move forward in this area and seize the opportunities arising from SME greening, the government should consider the following:

- **Introduce SME greening measures in the strategic documents and related action plans.** Although environmental policies that concern enterprises, such as increased energy efficiency and improved waste management, are sometimes partially covered in strategic documents, they contain no concrete actions and there is no co-ordinated approach to greening SMEs. The government is therefore advised to prioritise designing greening policies for SMEs and to have a clear action plan on how to support their transition to a green economy.
- **Focus on raising awareness and providing advice and guidance to SMEs on adopting environmentally sound practices**. The government is advised to help SMEs save energy, material and water costs and to demonstrate new and better ways to be resource efficient by providing them with tools and targeted information. Resource efficiency advisory services could be provided directly to SMEs by a relevant public agency, such as KIESA or KEPA. Their aim could be to convince SMEs that resource efficiency offers high returns for low-cost investments. Ireland's example of how the government can raise awareness on greening among SMEs and support them in increasing resource efficiency could be replicated in Kosovo (Box 15.8).
- **Enhance financial support for SME greening**. So far no financial incentives have been offered to SMEs to increase their environmental performance. The government is therefore recommended to roll out new financial instruments that support SMEs in undertaking small-scale energy efficiency investments. Moreover, existing mechanisms could be redesigned in a way to boost eco-innovation. For instance, Kosovo launched its first Innovation Fund in 2018. Part of these funds could be dedicated to commercialising eco-innovative ideas, and to plant the seeds of a circular economy. Moreover, the SME Instrument under Horizon 2020 could be also promoted among SMEs, as it allows for financial support to foster eco-innovation.

  As providing direct grants for SME greening might be burdensome for the budget, Kosovo might also consider tapping into different channels to support SMEs financially. Introducing a dedicated loan guarantee scheme or subsidising interest rates for green project loans might be feasible, since SMEs would be able to use resource efficiency savings to repay up-front borrowing.

Box 15.8. Green Business Ireland: Raising awareness of greening advantages to SMEs and enhancing resource efficiency

In 2011, the Environmental Protection Agency (EPA) of Ireland formed the Green Business Programme under its National Waste Prevention Programme. Its aim was to deliver substantive resource efficiency improvements and cost savings through waste prevention and reductions in water and energy consumption. The programme is managed by the Clean Technology Centre (CTC) at the Cork Institute of Technology. The CTC, established in 1994, has a team of experts in resource efficiency and waste prevention.

The Green Business Programme provides a range of services to help SMEs increase their resource efficiency: site visits, guidance documents, online tools, seminars and community networking. By registering at www.greenbusiness.ie and using the online audit tools, users can start to measure their resource use and identify where savings could be made. A site visit can also be requested, during which a Green Business Advisor will visit the participant premises and identify free and low-cost measures that will lead to cost savings. The service is free of charge, and operated by the CTC on behalf of the EPA.

To date, with an annual budget of EUR 350 000, the Green Business Initiative has visited 270 enterprises from a range of sectors (food processing, banking, public sector, small retailers) and achieved an estimated EUR 10 million of identified savings for the member enterprises (EUR 6.2 million in energy, EUR 2.7 million in waste and EUR 1.2 million in water). The individual savings ranged from EUR 2 000 to EUR 200 000.

Some of the lessons learned from the experience of Green Business are that SMEs are not monitoring their utility costs and are unaware of the extent of waste. In addition, they are unaware of the opportunities to reduce waste at no cost or low cost, as well as the opportunities to increase the bottom line and enhance their image. They often also have no awareness of the assistance available for improving their environmental performance.

The example of Green Business demonstrates how an efficient and effective support mechanism could be designed: involving a co-operation between the government and academia which is cost-efficient and brings various benefits just by identifying potential savings that businesses are usually unaware of. The model underlines the importance of providing advice and guidance to SMEs to “go green”. It is also easily applicable to the context of the Western Balkans and Turkey and can be applied with the support of the existing environmental protection agencies.

Sources: Green Business Programme (2017[44]), *GreenBusiness website*, http://greenbusiness.ie/; EPA (2018[45]), *Green Business Initiative*, www.epa.ie/waste/nwpp/gbi/, EPA (2018[46]), *National Waste Prevention Programme*, www.epa.ie/waste/nwpp/.

Internationalisation of SMEs (Dimension 10)

Since the last assessment, Kosovo has made considerable progress in promoting SME internationalisation, increasing its score from 3.15 to 3.74 (see Table 15.18 and Figure 15.1). Its strides made in the development and early implementation of programmes to support export promotion and cluster development have made the biggest contribution to this improved performance.

Table 15.18. . Scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	5.00	4.86
		Implementation	4.81	4.24
		Monitoring and evaluation	3.57	3.01
		Weighted average	**4.62**	**4.18**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.00	3.58
		Implementation	3.86	3.08
		Monitoring and evaluation	1.00	1.76
		Weighted average	**3.33**	**2.97**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.29	3.45
		Implementation	2.00	2.26
		Monitoring and evaluation	1.00	1.36
		Weighted average	**2.19**	**2.44**
Kosovo's overall score for Dimension 10			**3.74**	**3.43**

State of play and key developments

Despite the progress made in business reforms in recent years, Kosovo remains the least integrated economy in the region. Its performance is particularly low in exports overall, with an export-to-GDP ratio in 2017 of only 26.6% compared to the regional average of 38.2% (World Bank, 2018[47]). Meanwhile, it has the largest share of SME exports of all the WBT economies, at 97.3%, with the dominant share coming from micro enterprises (54.9%). All the same, according to data received for this assessment Kosovo, had a much lower average value of exports per enterprise (about EUR 215 000) compared to the WBT average of about EUR 662 000 in 2016.[8]

In terms of trade performance, Kosovo has reduced the time required for documentary and border compliance for exporting by improving its automated customs data management system, streamlining customs clearance processes and implementing the Albania-Kosovo Transit Corridor. This reform of its customs clearance processes presents a considerable improvement to the ease of doing business in Kosovo (World Bank, 2018[48]). However, the cost of importing in terms of border compliance increased from USD 83 to USD 128 between 2014 and 2017, and although the cost of exporting decreased from USD 137 to USD 105 over the same period, it remains significantly above the EU average of USD 85, albeit below the OECD average of USD 164 (World Bank, 2018[48]). It is worth noting that the majority of customs duties on imports and exports between Kosovo and the EU have been eliminated through the Stabilisation and Association Agreement, which entered into force in April 2016 (CEU, 2015[49]).

Export promotion

Previously, export promotion was covered under the Private Sector Development Strategy 2013-2017, which included actions on export and investment promotion and support of potential export sectors. Kosovo now addresses export promotion in its renewed Private Sector Development Strategy 2018-2022 (still a draft at the time of writing) with links to its current National Development Strategy. The main priorities include the identification of strategic interventions to enhance the capacity of SMEs to achieve a higher value of exports through a sectoral approach.

Throughout the assessed period, KIESA has implemented export promotion activities for SMEs financed both by government and donors. However, its limited staff and funds continue to hinder it – it has only three employees responsible for export promotion. In 2018, EUR 351 000 of KIESA's operational budget was allocated to export promotion activities.

KIESA's Department for Export Promotion provides SMEs with trade policy information and commercial intelligence, economy representation at major trade fairs, export promotion and marketing, and product development and training. Additionally, KIESA maintains a database for exporting companies and helps to co-ordinate inter-institutional issues relating to company exports (KIESA, 2018[50]). KIESA's website contains detailed export sector reports highlighting the activity of SMEs and provides clear guidelines on exporting as well as information on developing a marketing plan.[9] Financial support is also offered to manufacturing companies with export potential. During 2017, over 300 SMEs benefitted from financial assistance to participate in conferences, trade fairs, and consultancy services dedicated for export support; 47 export-related contracts were signed in the same year.

A number of donor-funded programmes also aim to improve export promotion and competitiveness amongst SMEs. For example, from January 2018 to December 2020, the Ministry of Economic Development, in partnership with KIESA, is implementing the EUR 3 million GIZ-funded programme, Creating Employment through Export Promotion (GIZ, 2018[51]).

Kosovo's Credit Guarantee Fund offers trade finance tools through local commercial banks to assist SMEs in accessing trade financing to support exports. However, there is a low demand for trade finance products amongst SMEs, as they tend to opt to pre-pay for inputs in order to obtain discounts from suppliers. Trade finance products are especially available to larger enterprises, while letter of credit volumes to SMEs represent just 0.1% of lending institutions' credit loans, and guarantee volumes comprise 1-6% of total portfolio loans (EIB, 2016[52]).

KIESA monitors export promotion programmes with measures to promote transparency. For example, it publishes publicly available annual reports on its activities, and since 2018 it has started to publish the signed and stamped evaluation form of each applicant on its website, thus offering full transparency on the beneficiaries and assessment scores of all applicants. This also increases the accountability of government officials who conduct evaluations and decide on the beneficiaries of support programmes. However, evaluations on the effectiveness of programmes in increasing exports have not yet been conducted.

Integration of SMEs into global value chains

Over the assessment period, Kosovo has been more proactive in defining its strategy and implementing donor-funded projects that address these deficiencies. It is setting out a range of measures to enhance the competitiveness of SMEs and ensure their capacity to integrate and upgrade within supply chains, with an emphasis on developing cluster associations amongst SMEs and large enterprises. The draft Private Sector Development Strategy foresees continuous support to SMEs in enhancing product conformity with the technical requirements of the EU and global standards, enhancing their production capacity, and modernising SMEs' plants and equipment to facilitate their integration into global value chains.

In the same vein, Kosovo's National Development Strategy 2016-2022 highlights the objective of improving the quality of standards for productive activities; shifting towards higher value-added activities and forging connections to value chains across sectors. The National Development Strategy also aims to promote networks and cluster associations through three components to be developed under an upcoming National Competitiveness Strategy:

1. identifying seven competitive clusters and providing them with support through grants and technical assistance
2. establishing an institutional framework to support industrial cluster development that includes government, business, and clusters with larger firms in leadership positions
3. establishing a supplier network through regular meetings between government and business to strengthen ties within value chains (Office of the Prime Minister, 2016[53]).

Kosovo does not yet have operational programmes to support these components. However, previous projects have contributed to the definition and sectoral approach of its current strategies: clusters have risen to the forefront of priorities following an exercise in mapping the existing and potential clusters in Kosovo through a United Nations Development Project (UNDP) project in 2014 (UNDP and Ministry for Foreign Affairs of Finland, 2014[54]). The Ministry of Trade and Industry has recently published an information document called the Cluster Roadmap, which lays out the path of cluster development from defining a strategy, achieving regular joint activities, to reaching the self-sustainability phase.

Together with KIESA, the MTI has planned a support programme for clusters which includes providing incentives to SMEs for their co-operation, assistance in facilitating meetings, providing brochures on the steps needed to form clusters, and covering administrative costs, with the overall aim of achieving self-funded clusters. However, the budget relies mainly on donor contributions and the programmes remain at an early stage in implementation – impeded by limited staff and funds. Difficulties notwithstanding, one cluster in the metal industry and renewable energy sector (KIMERK) has been established to date.

Meanwhile, donor-funded programmes are filling in the gaps. The Competitiveness and Export Readiness Programme financed by the World Bank to the tune of EUR 14.3 million includes support for SMEs with export potential to increase their export readiness and competitiveness on international markets. The measures included until 2022 will help Kosovo undertake the significant effort of improving its national quality infrastructure to meet international standards and prepare SMEs to integrate into global value chains (World Bank, 2017[55]).

SMEs are systematically informed through Small Business Days about the programmes and policy initiatives for facilitating integration into global value chains. During the year, around 10 conferences are organised in different municipalities by the MTI and KIESA, during which government objectives are presented and SMEs have the opportunity to provide feedback.

Promoting the use of e-commerce

Official data on e-commerce in Kosovo are not yet available, although the Kosovo Statistics Agency has begun to collect and develop statistics on the information society since April 2017 in line with Eurostat standards (the results are not yet forthcoming). Kosovo is preparing administrative instructions for e-commerce operators and their websites in an effort to reduce bottlenecks (OECD, 2018[10]). In the meantime, there is no website with easily accessible information on e-commerce in Kosovo.

In terms of the regulatory environment to support e-commerce, Kosovo's Law on Information Society Services (No. 04/L-094) establishes that documentation in electronic form is legally equivalent to the traditional documentation presented in paper format. This facilitates electronic services that cover electronic banking and financial services, the provision of government services, e-procurement by enterprises, and the application of e-signatures to cover e-payments.

However, Kosovo has only partially implemented its law on e-commerce, while the electronic authentication framework is still being updated, and it still needs to work with commercial banks to replace the rigorous processes that are discouraging businesses from adopting e-commerce practices (OECD, 2018[10]). For example, private sector actors in Kosovo report difficulty in retaining international clients in e-commerce because of the difficulty of setting up online services to accept credit card payments, which local banks often do not support. Additionally, the law on Consumer Protection (No. 04/L-121) still has some way to go to align with the EU framework on e-commerce (OECD, 2018[10]).

The Ministry of Economic Development, together with other stakeholders, has taken the first step in transposing the European Union's eIDAS Regulation on electronic identification and trust services into Kosovo's domestic legislation. In March 2018, the government approved the Concept Document for Electronic Identification and Trust Services for Electronic Transactions, which will form the upcoming draft of the Law on Electronic Identification and Trust Services for Electronic Transactions.

The way forward for Dimension 10

Despite the progress made, large challenges remain. Significant trade barriers and poor product quality impede SME exports and their integration into global value chains, despite ongoing projects seeking to address these. Greater institutional co-ordination for enabling e-commerce has also yet to be realised. In light of these ongoing challenges, Kosovo should aim to adopt the following recommendations:

- **Focus on strong programme implementation and follow up through robust monitoring and evaluation** to ensure that Kosovo's objectives for export readiness and export promotion outlined in its Private Sector Development Strategy and National Development Strategy translate into concrete, measurable results. Only 5% of SMEs in Kosovo export, and the survival rate of exporting firms is exceptionally low. Kosovo should aim to implement support programmes that will first ensure that more SMEs are "export ready", while embarking on export promotion programmes to support those which are already capable and increase their chance of survival. Consistent evaluation mechanisms should be an intrinsic feature of these programmes to assess their effectiveness.

- **Increase efforts to develop programmes to support clusters of chosen sectors**. While this objective is outlined in the National Development Strategy and the draft Private Sector Development Strategy, no concrete initiatives have yet been taken. Kosovo should build on its previous sporadic activities, and further extend its support to the identified clusters that are driven by the availability of raw materials and skills, and that have been assessed as having export potential in the medium-long term. Kosovo should refrain from creating new clusters from scratch, and instead extend its support to existing ones.
- **Establish an operational and legal environment that can support the use of e-commerce.** Kosovo should first develop a comprehensive legal framework that supports the regulated use of e-commerce by harmonising its legislation on e-commerce and consumer protection with the EU regulatory framework. At the time of writing, the World Bank and Kosovo's Ministry of Economic Development has been in the process of launching the Kosovo Digital Economy Programme with the aim of improving digital connectivity across the economy. This programme, if implemented without delays, may help to provide the necessary infrastructure for the development of e-commerce for SMEs and increase the presence of SMEs on the Internet through websites, social media marketing, and enabling electronic commerce for their products and services (World Bank, 2018[56]).

Conclusions

In recent years, Kosovo has demonstrated significant progress in reducing the administrative burden for SMEs and building a conducive business environment. Most notably, the creation of one-stop shops under the Kosovo Business Registration Agency was a milestone, since it allows entrepreneurs to establish their businesses in a quick and cheap manner.

However, the improvements to the regulatory environment have not been complemented by fully embedding the "think small" principle of the SBA in policy making. Although there is still a long way to go to include an SME test in regulatory impact assessments, the impact of new regulations on SMEs should still be considered.

Finally, Kosovo is still very much in the early stages of offering tailored financial and non-financial support to SMEs to improve their competitiveness. The whole SME support landscape is currently dominated by donors, which could result in overlapping initiatives. A more strategic approach to working with donors in the framework of the new Private Sector Development Strategy would be a good first step forward.

Notes

[1] In Kosovo's case the growth rate percentage should be analysed in the context of the low base effect. This refers to the tendency for a small change from a low initial amount to be translated into a large percentage, making it appear large.

[2] The WBT region refers to the six pre-accession Western Balkan economies (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) and Turkey. Unless otherwise specified, reference to the "region" in this publication implies these seven economies.

[3] Smart specialisation originated in the EU as a concept for stimulating innovation driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services, and finally – economic growth. As human capital is a framework condition in any innovation ecosystem, smart specialisation will require the upskilling or reskilling of the workforce, underscore the importance of key competences and require businesses throughout the supply chain to adapt to technological advancements, new working practices, advanced product design etc. For more information, please see Chapter 12 on enterprise skills and Box 13.1 in Chapter 13 on innovation policy for SMEs.

[4] Law on bankruptcy No. DL-019-2016, date 23.06.2016.

[5] SMEs are defined as business organisations which have an annual turnover of up to EUR 1 million or up to 25 employees.

[6] The law requires all persons to act with good will in their transactions.

[7] Horizon 2020 is the biggest EU-funded research and innovation programme covering the period from 2014 to 2020. The overall objective of the programme is to ensure Europe produces world-class science, removes barriers to innovation and makes it easier for the public and private sectors to work together in delivering innovation. With nearly EUR 80 billion of funding it promotes research and innovation by facilitating the commercialisation of innovative ideas from the lab to the market. In particular, Horizon 2020 provides grants to research and innovation projects through open and competitive calls for proposals. Legal entities from any country are eligible to submit project proposals to these calls. Participation from outside the European Union is explicitly encouraged (European Commision, 2014[68]).

[8] This 2016 WBT figure of average value of exports per enterprise has been calculated as a simple average and includes Albania, the Republika Srpska, Kosovo, North Macedonia, Montenegro, Serbia, and Turkey. For Bosnia and Herzegovina, only data for the Republika Srpska were available.

[9] Export sector reports of the Ministry and Trade and Industry were made possible through financing from the Ministry for Foreign Affairs of Finland, in the framework of the Aid for Trade project, implemented by the United Nations Development Programme (UNDP). Reports are available on the following sectors: food and beverage processing industry, wood processing industry, metal processing industry, textile processing industry, information technology, tourism, plastic and rubber processing industry, and chemical industry (KIESA, 2018[59])

References

(n.a.) (n.d.), *Kosovo* and the EU - European External Action Service*, https://eeas.europa.eu/delegations/kosovo_en/1387/Kosovo%20and%20the%20EU (accessed on 19 February 2019). [69]

Central Bank of the Republic of Kosovo (2018), *Seritë Kohore [Time Series]*, Central Bank of the Republic of Kosovo, https://www.bqk-kos.org/?m=t&id=55. [35]

Central Bank of the Republic of Kosovo (2017), *Sistemi Financiar: Informata Mujore Shtator 2017 [Financial System: Monthly Information September 2017]*, Central Bank of the Republic of Kosovo, https://bqk-kos.org/repository/docs/2017/FINALI_SISTEMI%20FINANCIAR_Shtator%202017.pdf. [34]

CEU (2015), *Stabilisation and Association Agreement between the European Union and the European Atomic Energy Community, of the One Part, and Kosovo*, of the Other Part*, Council of the European Union, Brussels, http://data.consilium.europa.eu/doc/document/ST-10728-2015-REV-1/en/pdf (accessed on 27 September 2018). [49]

Confartigianato (2018), *Confartigianato website*, https://www.confartigianato.it/. [41]

De Vries, H. et al. (2009), *SME Access to European Standardization: Enabling Small and Medium-Sized Enterprises to Achieve Greater Benefit from Standards and from Involvement in Standardization*, Rotterdam School of Management. [40]

Department for Digital, Culture, Media and Sport (2017), "The wider economy: Helping every British business become a digital business", in *Digital Strategy*, Department for Digital, Culture, Media and Sport, https://www.gov.uk/government/publications/uk-digital-strategy/4-the-wider-economy-helping-every-british-business-become-a-digital-business. [58]

Early Warning Europe (2018), *Early Warning Europe website*, http://www.earlywarningeurope.eu. [25]

EBAN (2018), *EBAN Statistics Compendium: European Early Stage Market Statistics*, EBAN, Brussels, http://www.eban.org/wp-content/uploads/2018/07/EBAN-Statistics-Compendium-2017.pdf. [36]

EBRD (2018), *Enhancing Public-Private Dialogue in Kosovo: Support to the National Council for Economic*, European Bank for Reconstruction and Development, https://www.ebrd.com/cs/Satellite?c=Content&cid=1395276519735&pagename=EBRD%2FContent%2FContentLayout&rendermode=live%3Fsrch-pg (accessed on 8 November 2018). [28]

EBRD (2018), *Transition Report 2017-2018: Sustaining Growth*, European Bank for Reconstruction and Development, London, http://2017.tr-ebrd.com/countries/. [3]

EBRD (2017), *Transition Report 2017-18: Sustaining Growth: Kosovo*, European Bank for Reconstruction and Development, http://2017.tr-ebrd.com/countries/#. [60]

EC (2018), *2018 Economic Reform Programmes of Albania, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, Bosnia and Herzegovina and Kosovo*: The Commission's overview and country assessments*, Euroepan Commission, http://dx.doi.org/10.2765/67765. [1]

EC (2018), *A Credible Enlargement Perspective for and Enhanced EU Engagement with the Western Balkans*, European Commission, https://eeas.europa.eu/regions/western-balkans/39711/credible-enlargement-perspective-and-enhanced-eu-engagement-western-balkans_en (accessed on 10 October 2018). [20]

EC (2018), "Commission assessment: Economic Reform Programme of Kosovo*(2018-2020)", *Commission Staff Working Document*, No. SWD(2018) 133 final, European Commission, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_kosovo.pdf (accessed on 13 September 2018). [7]

EC (2018), *Economic Reform Programmes: Western Balkans and Turkey*, European Commission, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf. [15]

EC (2018), "EU candidate countries' and potential candidates' economic quarterly (CCEQ)", *Technical Paper*, No. 028, European Commission, http://dx.doi.org/10.2765/319761. [2]

EC (2018), *Joint Statement on the Ratification of the Border Demarcation Agreement between Kosovo and Montenegro*, European Commission, https://ec.europa.eu/commission/commissioners/2014-2019/hahn/announcements/joint-statement-ratification-border-demarcation-agreement-between-kosovo-and-montenegro_en (accessed on 10 October 2018). [61]

EC (2018), "Kosovo 2018 report", *Commission Staff Working Document*, No. SWD(2018) 156 final, European Commission, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-kosovo-report.pdf. [6]

EC (2018), *Kosovo on its European Path*, European Commission, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near_factograph_kosovo.pdf (accessed on 10 October 2018). [22]

EIB (2016), *Kosovo: Assessment of Financing Needs of SMEs in the Western Balkans Countries*, European Investment Bank, Zurich, http://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_kosovo_en.pdf . [52]

EPA (2018), *Green Business Initiative*, Environmental Protection Agency, http://www.epa.ie/waste/nwpp/gbi/. [45]

EPA (2018), *National Waste Prevention Programme*, Environmental Protection Agency, http://www.epa.ie/waste/nwpp/. [46]

EU Office in Kosovo (2018), *Support to the Free Movement of Goods (FMG) – Kosovo, Inception Report*, European Union Office in Kosovo. [38]

European Commision (2014), *The EU Framework Programme for Research & Innovation*, http://dx.doi.org/10.2777/3719. [68]

European Commission (2016), *Kosovo* and the EU - European External Action Service*, https://eeas.europa.eu/delegations/kosovo_en/1387/Kosovo%20and%20the%20EU (accessed on 19 February 2019). [21]

Eurostat (2018), *Eurostat (database)*, European Commission, https://ec.europa.eu/eurostat/web/national-accounts/data/database. [4]

Eurostat (2018), *National Accounts (including GDP) (database)*, European Commission, https://ec.europa.eu/eurostat/web/national-accounts/data/database. [62]

GIZ (2018), *Creating Employment through Export Promotion*, Gesellschaft für Internationale Zusammenarbeit, https://www.giz.de/en/worldwide/29972.html (accessed on 25 September 2018). [51]

GIZ Kosovo (2018), *Feasibility Study: A Concept Proposal for the Future Use of the KFOR Camp in Prizren Kosovo*, GIZ Kosovo, https://www.alg-prizren.com/pdfs/GIZ-Feasibility-Study.pdf. [42]

Government of France (2018), *L'entrepreneuriat: Redonner de la Compétitivité aux Entreprises [Entrepreneurship: Restoring Competitiveness to Business]*, http://www.gouvernement.fr/action/l-entrepreneuriat. [24]

Green Business Programme (2017), *GreenBusiness website*, http://greenbusiness.ie/. [44]

ILO (2018), *Employment-to-Population Ratio by Sex and Age (%)*, International Labour Organization, https://www.ilo.org/global/statistics-and-databases/lang--en/index.htm. [12]

IMF (2016), *Financial Access Survey*, International Monetary Fund, http://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C. [32]

ITP Prizren (2018), *The Kosovar-German Innovation and Training Park*, Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH, http://itp-prizren.com/wp-content/uploads/2018/10/Gizz-Leaflet-Trifold-ITP.pdf. [43]

KCGF (2018), *Statistics*, Kosovo Credit Guarantee Fund, http://www.fondikgk.org/en/statistics. [33]

KIESA (2018), *Export Sectors*, Kosovo Investment and Enterprise Support Agency, https://kiesa.rks-gov.net/page.aspx?id=2,99. [59]

KIESA (2018), *KIESA Services*, https://kiesa.rks-gov.net/page.aspx?id=2,3 (accessed on 2 October 2018). [50]

KIESA (2017), *Kosovo MSME's Training Needs Analysis*, Kosovo Investment and Enterprise Support Agency, Pristina, https://kiesa.rks-gov.net/desk/inc/media/88FFC055-F8CE-417C-A1D9-C57AEE8C8563.pdf (accessed on 31 July 2018). [31]

Ministry of European Integration (2017), *National Program for Implementation of the Stabilisation and Association Agreement– NPISAA - Ministry of European Integration*, Ministry of European Integration, Republic of Kosovo, http://mei-ks.net/en/national-program-for-implementation-of-npisaa (accessed on 10 October 2018). [19]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, Competitiveness and Private Sector Development, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264298576-en. [10]

OECD (2017), "FDI regulatory Restrictiveness Index", *Database*, http://www.oecd.org/investment/fdiindex.htm. [9]

OECD (2017), *Monitoring Report: The Principles of Public Administration: Kosovo**, OECD/SIGMA, http://sigmaweb.org/publications/Monitoring-Report-2017-Kosovo.pdf. [26]

OECD (2017), *PISA 2015 Assessment and Analytical Framework: Science, Reading, Mathematic, Financial Literacy and Collaborative Problem Solving,*, PISA, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264281820. [13]

OECD (2015), *Kosovo: Student Performance (PISA 2015)*, OECD, http://gpseducation.oecd.org/CountryProfile?primaryCountry=XKO&treshold=10&topic=PI. [64]

Office of the Prime Minister (2017), *Better Regulation Strategy 2.0 for Kosovo: 2017-2021*, Office of the Prime Minister, Republic of Kosovo, http://www.kryeministri-ks.net/repository/docs/Better_Regulation_Strategy_2_0_for_Kosovo_-_ENGLISH.pdf. [27]

Office of the Prime Minister (2016), *National Development Strategy 2016-2021 (NDS)*, Office of the Prime Minister, Republic of Kosovo, http://www.kryeministri-ks.net/repository/docs/National_Development_Strategy_2016-2021_ENG.pdf. [53]

Republic of Kosovo (2018), *Administrative Instruction No. 08/2018 on the Professional Standardisation Council*, Republic of Kosovo, https://mti.rks-gov.net/desk/inc/media/E6DD3362-7916-4956-B05A-E5B803776984.pdf. [39]

Republic of Kosovo (2018), *Law No. 06/L-020 on the Budget of the Republic of Kosovo for Year 2018*, Official Gazette of the Republic of Kosovo, https://mf.rks-gov.net/desk/inc/media/ED82668F-DF99-42A3-A3ED-DE85125C56BC.pdf (accessed on 20 September 2018). [30]

Republic of Kosovo (2018), *Law No.06/L-041 On Technical Requirements for Products and Conformity Assessment*, Official Gazette of the Republic of Kosovo, https://mti.rks-gov.net/desk/inc/media/DA66593D-6AE2-4C3A-ABCD-C96FEE9E7047.pdf. [37]

Republic of Kosovo (2014), *Law No. 04/L-220 on Foreign Investment*, Official Gazette of the Republc of Kosova, https://mti.rks-gov.net/desk/inc/media/1916AE1F-48E8-451D-A328-CA350EC4D7D2.pdf. [23]

Sanfey, P. and J. Milatovic (2018), *The Western Balkans in Transition: Diagnosing the Constraints on the Path to a Sustainable Market Economy*, European Bank for Reconstruction and Development. [11]

Transparency International (2018), *Corruption Perceptions Index*, Transparency International, https://www.transparency.org/cpi2018 (accessed on 9 October 2018). [14]

UNDP (2016), *Kosovo Human Development Report 2016*, United Nations Development Programme, http://hdr.undp.org/sites/default/files/human_development_report_2016.pdf. [8]

UNDP and Ministry for Foreign Affairs of Finland (2014), *Report on Competitiveness: "Natural-Born Clusters"*, United Nations Development Programme, Pristina, http://www.ks.undp.org/content/dam/kosovo/docs/AFT/Report-on-Competitiveness%20-%20Natural%20Born%20Clusters%20(ENGLISH).pdf (accessed on 26 September 2018). [54]

USAID (2015), *Follow-Up Assessment on Impact from Irregular Electricity Supply on Kosovar Businesses*, United States Agency for International Development, http://uboconsulting.com/PDF/Final_Report_Follow_up_Assessment_on_Impact_from_Irregular_Electricity_Electricity_Supply_on_Kosovar_Businesses.pdf. [16]

World Bank (2019), *Readiness Assessment Tool*, World Bank Open Data Toolkit website, http://opendatatoolkit.worldbank.org/en/odra.html. [29]

World Bank (2018), *Data for Albania, Bosnia and Herzegovina, Kosovo, Macedonia, FYR, Serbia, Turkey, Montenegro (Data)*, World Bank, Washington, DC, https://data.worldbank.org/?locations=BA-XK-MK-RS-TR-ME-AL (accessed on 27 September 2018). [65]

World Bank (2018), *Doing Business 2019 Training for Reform Economy Profile: Kosovo*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/769581541144292772/pdf/WP-DB2019-PUBLIC-Kosovo.pdf (accessed on 12 November 2018). [48]

World Bank (2018), *Doing Business 2019: Training for Reform*, World Bank, Washington, DC, http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf. [18]

World Bank (2018), *Enterprise Surveys (ES) | Data Catalog*, https://datacatalog.worldbank.org/dataset/enterprise-surveys (accessed on 26 September 2018). [57]

World Bank (2018), *Project Appraisal Document on the Kosovo Digital Economy (KODE) Project*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/249951531020771941/pdf/Kosovo-KODE-PAD-06132018.pdf. [56]

World Bank (2018), *World Bank Open Data (database)*, https://data.worldbank.org/ (accessed on 19 November 2018). [47]

World Bank (2018), *World Development Indicators (DataBank)*, World Bank, Washington, DC, http://databank.worldbank.org/data/reports.aspx?source=2&country=SRB. [63]

World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*, World Bank, Washington, DC, http://dx.doi.org/10.1596/978-1-4648-1146-3 (accessed on 27 July 2018). [17]

World Bank (2017), *Kosovo - Competitiveness and Export Readiness Project*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/619361495332051749/Kosovo-Competitiveness-and-Export-Readiness-Project (accessed on 10 January 2019). [55]

World Bank (2017), *Project Appraisal Document on a Proposed Credit in the Amount of EUR 14.3 million to the Republic of Kosovo for a Competitiveness and Export Readiness Project*, World Bank, http://documents.worldbank.org/curated/en/619361495332051749/pdf/Kosovo-Comp-PADrevised-05012017.pdf (accessed on 27 September 2018). [66]

World Bank (2016), *Doing Business 2017 Economy Profile: Kosovo*, World Bank, Washington, DC, https://openknowledge.worldbank.org/handle/10986/25562. [5]

Further reading

EC (2017), *EntreComp: The Entrepreneurship Competence Framework*, European Commission, Brussels, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/entrecomp-entrepreneurship-competence-framework.

EC (2018), *DigComp 2.1: The Digital Competence Framework for Citizens with Eight Proficiency Levels and Examples of Use*, European Commission, Brussels, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/digcomp-21-digital-competence-framework-citizens-eight-proficiency-levels-and-examples-use.

OECD et al. (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/9789264254473-en.

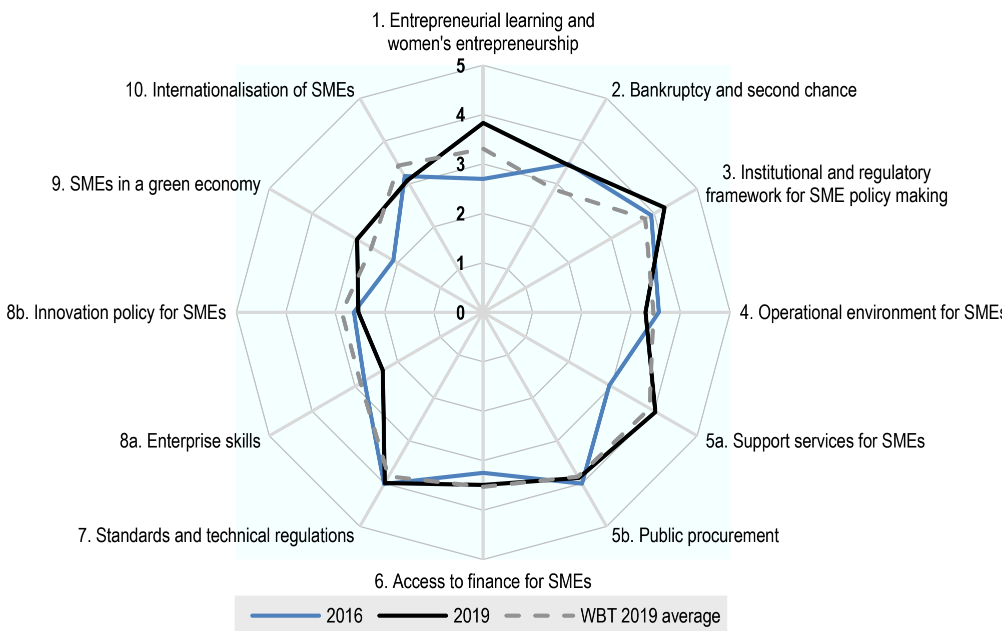
Chapter 16. Montenegro: Small Business Act profile

This chapter covers in depth the progress made by Montenegro in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Montenegro's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the Montenegrin economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 16.1. Small Business Act scores for Montenegro (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (Entrepreneurial learning and women's entrepreneurship) and Dimension 8a (Enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Montenegro has made progress in implementing the Small Business Act since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 16.1). Most of the developments since 2016 have involved improving its legal and regulatory environment, which lays the foundations for better SME policy making. The main achievements that have helped Montenegro improve its performance in this assessment are as follows:

A new SME strategy has been prepared using an inclusive approach. The new Strategy for the Development of Micro, Small and Medium-Sized Enterprises (MSME Strategy) was adopted in July 2018. This comprehensive document includes objectives which reflect all ten SBA principles, and the priority areas have been identified based on the 2016 SME Policy Index findings. The views of a remarkably wide range of SMEs were sought in preparing it.

Entrepreneurial learning has been systematically infused into education. Entrepreneurship has been included as a key competence through a cross-curricular approach in pre-school and primary education, and entrepreneurial learning has been introduced as an optional subject in lower and upper secondary schools. The comprehensive revision of the curricula is likely to have a long-term positive impact on the probability of firms being started up, their performance and their survival.

Resolving insolvency has become faster and cheaper. Montenegro's amended insolvency laws now allow businesses that are in financial difficulties to be reorganised, and make it easier to liquidate non-viable companies. A more efficient insolvency regime has helped Montenegro increase the recovery rate of debt by creditors from 48.6% in 2016 to 50.0% in 2018.

The legal framework regulating non-bank financial instruments has been strengthened. Non-bank financial institutions have been brought under the supervision of the Central Bank, and a law adopted in 2018 has set the framework for factoring, leasing and credit guarantee schemes. These developments are expected to further boost the demand for non-bank financial instruments, diversifying financing options for SMEs beyond traditional bank lending.

Investments in innovation infrastructure have received a boost. In 2016, the Tehnopolis innovation centre opened in Nikšić. This was the first phase of a science and technology park network in Montenegro that will comprise four institutions. The significant funds dedicated to sustaining and extending this network indicate the government's long-term commitment to fostering innovation activities among SMEs.

SMEs have easier access to the public procurement market. Following an amendment to the public procurement law, SMEs may now apply for bigger contracts without the need to fulfil cumbersome procedural requirements. The Public Procurement Office has also prepared detailed guidelines for line ministries to further encourage SMEs to participate in public tenders. The impact of these developments on the SME share of public contracts has yet to be seen.

Priority areas

The enhanced legal and regulatory framework in Montenegro has not yet been accompanied by sufficient targeted measures to support SMEs' competitiveness. There is also room for a more co-ordinated approach to providing support measures, currently spread across different public institutions; SME initiatives would certainly benefit from consolidation to increase their effectiveness. This report identifies seven priority areas in which Montenegro should intensify its activities:

- **Ensure the effective implementation of the MSME Strategy by further strengthening the role of the Directorate of Investments, Development of SMEs and Management of EU funds.** The ambitious measures in Montenegro's newly adopted MSME Strategy require, more than ever, strong co-ordination among the different public institutions involved. Therefore, the directorate must have adequate human and financial resources to successfully implement and monitor the Strategy.
- **Implement a single and transparent system for business licensing and permits.** The process of obtaining various licences and permits needs to be streamlined as it remains lengthy and expensive and disproportionally affects SMEs. The Licence E-register system should be reformed to reduce unnecessary requirements and further simplify procedures.
- **Reduce the tax compliance requirements for SMEs.** Although various tax exemptions are available for SMEs locally, there are no measures to reduce their income tax compliance requirements. Income tax provisions such as presumptive taxes and cash accounting are greatly needed to reduce the disproportionate burden posed on SMEs by the tax system.
- **Introduce alternative equity-based finance.** There is little or no funding available in Montenegro through business angels, venture capital or listings.

Policy makers should consider equity financing, especially for innovative start-ups and SMEs. Introducing crowdfunding into the legislative framework could provide a feasible alternative source of finance for start-ups that have growth potential.

- **Consider setting up an independent unit/agency to implement innovation policy measures.** Both the Ministry of Economy and the Ministry of Science are actively involved in providing institutional and direct financial support to innovative SMEs. Yet the programmes are fragmented, and often fail to attract sufficient interest from SMEs. An independent government unit or agency is warranted to centralise the various initiatives currently spread across ministries.
- **Provide catalytic financial support to help SMEs adopt environmentally friendly practices.** The government could make use of existing mechanisms to boost support for SME greening. The Investment and Development Fund of Montenegro could be instrumental in providing financial support to those SMEs that are willing to invest in improving their environmental performance.
- **Enhance support for export promotion.** Most of the activities directed at the internationalisation of SMEs currently focus on providing information rather than tangible support to build capacity. SMEs need tailored programmes to help them develop their export capacity. However, public bodies need to be well-versed in the challenges and needs of Montenegrin enterprises as a prerequisite to developing these programmes.

Economic context and role of SMEs

Economic overview

Montenegro is a service-based, upper-middle income economy, with a gross domestic product (GDP) per capita of 18 765 current international dollars in purchasing power parity (PPP) terms and a population of 622 471 in 2017, making it the smallest of the Western Balkan and Turkey (WBT)[1] economies (World Bank, 2018[1]). In terms of value added, in 2017 services accounted for 54.5% of GDP, while industry comprised 17.4% and agriculture 7.6% (World Bank, 2018[1]). The services sector also accounted for the highest share of employment: 74.3% of total employment, followed by industry (18%) and agriculture (7.6%) (ILO, 2018[2]). The economy is particularly reliant on its tourism sector, which employs 15% of the workforce and provides one-fifth of its gross value added (EC, 2018[3]).

The economy has grown steadily since the previous assessment, at a rate of 4.7% in 2017 (Table 16.1). Looking ahead, the overall projection for GDP growth is positive, albeit more modest: it is forecast to rise slowly at a rate of around 3% in 2018 and 2.9% in 2019 (EC, 2018[4]).

Montenegro's sectoral structure is heavily reliant on capital inflows, which contribute to its large current account deficit and high external imbalances (160.2% in 2017), rendering the economy vulnerable to external shocks (EBRD, 2018[5]). Over the assessment period, Montenegro sustained a considerable trade imbalance – in 2017 import levels were 64.5% of GDP, outweighing exports at 41.1% (Table 16.1). Montenegro has the greatest current account deficit of the region at -16.3% of GDP in 2017, more than double that of all the other WBT economies (EBRD, 2018[5]). Sustained foreign direct investment (FDI) inflows positively affect the balance of payments, but in the medium to long term, FDI inflows may be conducive to public debt. In particular, they tend to increase the host country's imports because FDI companies import capital and intermediate goods and services that are not readily available in the host country.

As Montenegro unilaterally adopted the euro in 2002, it has no direct control over its monetary policy. It has been making ambitious efforts to correct its fiscal deficit and reduce public debt. Fiscal consolidation efforts have been driven by strengthened tax collection and public spending cuts. Inflation has been low, but rose to 2.8% in 2017, primarily driven by the increase in the value-added tax (VAT) rate from 19% to 21% and the rise of excises on tobacco and alcohol (World Bank, 2018[6]). Meanwhile, improvements in administrative capacity have helped fiscal consolidation efforts: the Tax Authority e-platform has simplified procedures, reduced costs and helped Montenegro to significantly improve its tax collection, bringing tax revenues as a share of GDP above the OECD average (OECD, 2018[11]). All in all, the economy's fiscal deficit is expected to reach a surplus by 2020 with the completion of major public infrastructure projects (IMF, 2018[8]; EC, 2018[9]).

Montenegro faces high youth unemployment, low female labour force participation and high long-term unemployment. Youth unemployment stood at 27.5% in the third quarter of 2017, the employment rate of women only reached 49.1% and the long-term unemployment rate reached 73.4% (EC, 2018[10]). Past GDP growth has translated into a marginal increase in employment, as Montenegro experienced falling unemployment from 18.0% in 2016 to 16.4% in 2017, primarily driven by increased male employment (World Bank, 2018[6]). A skills mismatch and weak inter-institutional co-operation between education and the labour market remain key challenges for growth, (EC, 2018[3]). Montenegro's education also lags behind OECD averages in science, reading and mathematics, according to the 2015 OECD Programme for International Student Assessment (PISA) (OECD, 2018[11]). Moreover, Montenegro recorded the highest rate of student truancy out of the 70 economies for which data were available in the 2015 PISA assessment, indicating a potentially precarious forecast for youth employment and readiness to work (OECD, 2016[12]).

Large infrastructure improvements in transport and energy are expected to strengthen key economic sectors, enhance sustainability and rebalance public finances. The completion of the priority section of the Bar-Boljare highway, connecting the Adriatic port of Bar with Serbia, is expected to stabilise Montenegro's tourism industry and bring its budget into a surplus of 5-6% of GDP in 2020 (EBRD, 2017[13]; EC, 2018[3]). The concurrent upgrading of its railway system will also improve its trade links and help the expansion of Bar harbour (EIB, 2018[14]). The completion of its first commercial 72MW wind power plant, which now represents 6% of the economy's total electricity production, puts Montenegro on track to reach its target of 36% renewables in its energy mix by 2020 (EBRD, 2017[13]).

Table 16.1. Montenegro: Main macroeconomic indicators (2013-18)

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth[1]	% year-on-year	3.5	1.8	3.4	2.9	4.7	3.0[f]
Inflation (HICP)[1]	% average	1.8	-0.5	1.4	0.1	2.8	3.0[f]
Government balance[1]	% of GDP	-4.6	-2.9	-8.3	-3.6	-5.3	-3.5[f]
Current account balance	% of GDP	-11.4	-12.4	-11.0	-16.2	-16.1	-16.5*
Exports of goods and services[1]	% of GDP	41.3	40.1	42.1	40.6	41.1	33.1*
Imports of goods and services[1]	% of GDP	61.4	60.0	60.6	63.1	64.5	71.9*
Net FDI[1]	% of GDP	9.6	10.2	16.9	9.4	11.3	9.7*
External debt[2,3]	% of GDP	153.5	163.1	161.8	158.8	160.2	..
Gross international reserves[1]	Ratio of 12 months imports of goods moving average	2.9	3.7	4.4	4.7	4.7	5.15*
Unemployment[1]	% of total active population	19.5	18.2	17.8	18.0	16.4	15.6[f]
National GDP[4]	EUR billion	3.36	3.46	3.65	3.95	4.29	..

Note: [f]: forecast; *: average of 1[st] and 2[nd] quarter; HICP: Harmonised Index of Consumer Prices.
Sources: [1]EC (2018[4]), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", http://dx.doi.org/10.2765/319761; [2]EBRD (2017[13]), *Transition Report 2017-18: Country Assessments*, http://2017.tr-ebrd.com/countries/; [3]EBRD (2018[5]), *Transition Report 2018-19: Country Assessments*, https://2018.tr-ebrd.com/countries/; [4]Eurostat (2018[15]), *Eurostat (database)*, https://ec.europa.eu/eurostat/data/database.

Business environment trends

Montenegro's business environment has improved since the previous assessment. Currently, Montenegro is one of the most open economies for FDI according to the

OECD FDI Regulatory Restrictiveness Index and has made significant improvements in removing barriers to trade (OECD, 2018[11]).

The main obstacles to the business environment remain weak enforcement of the rule of law, an inefficient public administration and corruption (EC, 2018[3]). These problems are also acknowledged in Montenegro's latest Economic Reform Programme (Box 16.1). The informal economy still presents a significant obstacle to the business environment. Moreover, it hinders the ability of the government to collect revenue and reduce its debt. Recent progress on privatisation has been delayed as several key companies remain publicly owned in the tourism and transport sectors – despite their envisaged privatisation under the 2017 Privatisation Plan (EBRD, 2017[13]). More troublesome is the fact that many state-owned enterprises (SOEs) in Montenegro are loss-making and obtain their financing from the government and international development banks. This privileged access to financing despite subpar performance creates market distortions and an uneven playing field for private enterprises, especially SMEs (OECD, 2018[11]).

Box 16.1. Economic reform programmes

Since 2015, all EU candidate countries and potential candidates are obliged to prepare economic reform programmes (ERPs). ERPs prepare the enlargement countries for their future participation in the EU's economic policy co-ordination procedures. They also play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation.

The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda. The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets
- social inclusion, poverty reduction and equal opportunities.

The European Commission and the European Central Bank then assess these seven programmes. This forms the basis for a multilateral economic policy dialogue involving enlargement countries, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include country-specific policy guidance reflecting the most pressing economic reform needs.

The findings of the Small Business Act assessment for the Western Balkans and Turkey provide the analytical background and guidance to the seven EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and accordingly in developing structural reform measures to overcome them.

Source: EC (2018[16]) *Economic Reform Programmes: Western Balkans and Turkey*, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf.

Montenegro is perceived as the most corrupt of the WBT economies, and its score of 46 (out of a possible 100) in Transparency International's *Corruption Perception Index* is the lowest in the region. It was in 64th place out of a total of 180 ranked economies in 2017, (Transparency International, 2018[17]).

Face-to-face interviews with Montenegrin SMEs highlighted poor institutional support and ineffective administration as key obstacles to their businesses. SMEs also reported that although consultations were carried out, the government did not take them into account sufficiently when forming strategies and action plans. The feedback from the interviews also indicated little awareness of available support programmes, especially in the areas of access to finance, increasing environmental performance and internationalisation. These findings are reflected in other sources, in which Montenegrin businesses have raised their concerns about the poor implementation of laws and delays in obtaining information and services (EC, 2018[3]).

Montenegro's ranking in the World Bank's *Doing Business 2018* report has risen four places to 42 out of 190 economies, placing it just after the Republic of North Macedonia and Kosovo* (World Bank, 2017[18]). The main factors contributing to this improvement are listed in Table 16.2.

Table 16.2. Recent business reforms in Montenegro

	Reforms making it easier to do business	Reforms making it harder to do business
Doing Business 2018	**The electricity supply has become more reliable** by 1) implementing the Supervisory Control and Data Acquisition automatic energy management system; and 2) starting to record data for the annual System Average Interruption Duration Index and System Average Interruption Frequency Index.	None
Doing Business 2017	**Paying taxes is less costly** by reducing the personal income tax rate. Montenegro has made paying taxes easier by providing an electronic system for filing and paying VAT. At the same time, Montenegro increased the health contribution rate paid by employers.	None
Doing Business 2016	**Construction permits are easier to deal with** by reducing the time needed to issue them.	None
	Paying taxes has been made easier for companies by introducing an electronic system for filing and paying labour taxes – though it also extended the "crisis tax" for an indefinite period on income exceeding EUR 720 per month.	None

Note: Only reforms which had either a positive or a negative impact on conducting business were considered. No reforms were introduced during the assessed period that had a negative impact.
Source: adapted from World Bank (2018[19]), *Doing Business: Business Reforms in Montenegro*, www.doingbusiness.org/en/reforms/overview/economy/montenegro.

* 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.

EU accession process

Montenegro applied for EU membership in 2008. The Stabilisation and Association Agreement (SAA) came into force in September 2010 and Montenegro was granted EU candidate status in December 2010. Accession negotiations began on 29 June 2012. As of April 2018, Montenegro had opened 30 out of 35 negotiating chapters, of which three have been provisionally closed, i.e. completed.

Chapter 20 of the accession negotiations, opened in December 2013, covers enterprise and industrial policy. Montenegro's progress in this area is assessed in this *SME Policy Index: Western Balkans and Turkey 2019*; the findings and recommendations provide monitoring and guidance for the country to meet Chapter 20 requirements for accession into the EU.

Chapter 20 aims to strengthen competitiveness, facilitate structural change and encourage a business-friendly environment for SMEs. Implementing the ten Small Business Act (SBA) principles is one of the requirements under this chapter. In EU countries, SME envoys are appointed by the national government to report on the uptake of the SBA and to promote SMEs' interests through government bodies. There are no SME envoys in pre-accession countries; the Directorate of Investments, Development of SMEs and Management of EU Funds under the Ministry of Economy of Montenegro acts as the SBA co-ordinator responsible for implementing the SBA principles.

The latest EU progress report finds that Montenegro is moderately prepared in enterprise policy (EC, 2018[10]). Going forward, Montenegro needs to:

- strengthen its administrative capacity and ensure strong inter-ministerial co-ordination to apply the EU *acquis*
- continue to implement industrial policy in close co-operation with industry and other relevant stakeholders, and conduct a mid-term review of the policy to assess its effectiveness.

As of February 2018, Montenegro's process of accession to the EU has gained further momentum, along with the other Western Balkans economies, thanks to the launch of the European Commission strategy on "a credible enlargement perspective for an enhanced EU engagement with the Western Balkans" (EC, 2018[21]). The new Western Balkans accession strategy details six flagship reform initiatives addressing key issues regarding rule of law, security and migration, increased connectivity and neighbourly relations (EC, 2018[21]). The initiatives also incorporate elements that support SME policy and Chapter 20 preparedness in the *acquis*, namely socio-economic development and a digital agenda.

EU financial support

The EU is the largest provider of financial assistance to Montenegro. Through the EU pre-accession funds, a total of EUR 506.2 million has been allocated to Montenegro for the period 2007-20, 7.9% of which has been apportioned to improving the business environment by enhancing competitiveness and innovation (EC, 2018[22]).

The EU also provides financial support for Montenegrin SMEs in the form of raising capital for start-ups, providing subsidised loans and guarantees, and skills and financial literacy programmes. Financial support is offered and co-ordinated through the following financial institutions: the European Investment Fund, the Western Balkans Investment Framework, the European Investment Bank, the European Bank for Reconstruction and

Development (EBRD), and the Western Balkans Enterprise Development and Innovation Facility. Since 1999, the European Investment Bank has provided EUR 621 million in loans to Montenegro (EC, 2018[22]). Grants through the Western Balkan Investment Framework total EUR 81 million, generating investments to the value of EUR 732 million (EC, 2018[22]). At the time of writing, the EBRD's cumulative investment stands at EUR 567 million, with a current portfolio of projects valued at EUR 352 million (EBRD, 2018[23]).

Likewise, various programmes such as Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) – financed by the Enterprise Europe Network; InnovFin (Horizon 2020); the Programme for Employment and Social Innovation; the European Structural and Investment Funds; and the SME Instrument; also play vital roles in the landscape of support to Montenegrin SMEs.

SMEs in the national economy

The definition of SMEs in Montenegro is given by Article 5 of the Law on Accounting 2016 (Official Gazette of the Republic of Montenegro, No. 52/2016). The categories conform to the EU standard definition of SMEs by employee size, but diverge on the other criteria (Table 16.3).

Table 16.3. Definition of micro, small and medium-sized enterprises in Montenegro

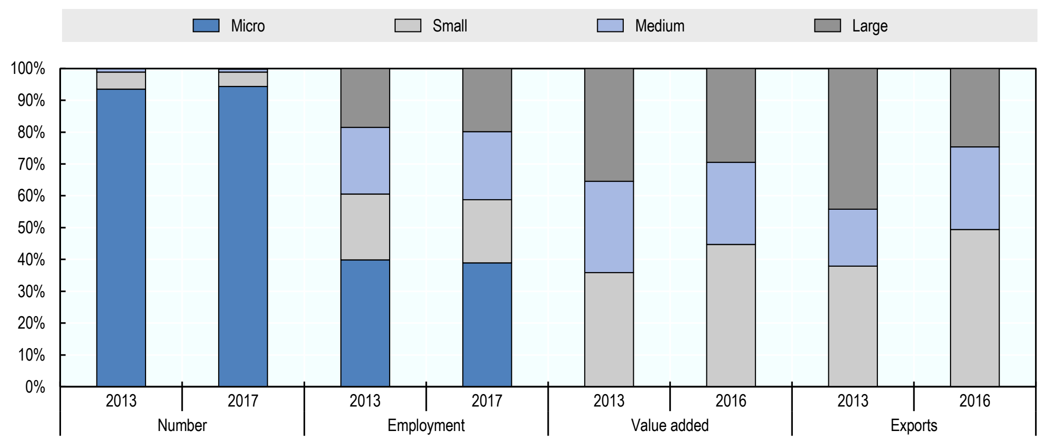
	EU definition	Montenegro definition
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	≤ 10 employees ≤ EUR 700 000 total annual income or ≤ EUR 350 000 total assets
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees ≤ EUR 8 million total annual income or ≤ EUR 4 million total assets
Medium-sized	< 250 employees ≤ EUR 50 million turnover or ≤ EUR 43 million balance sheet	< 250 employees ≤ EUR 40 million total annual income or ≤ EUR 20 million total assets

Source: Parliament of Montenegro (2016[24]), *Law on Accounting*, http://www.poreskauprava.gov.me/ResourceManager/FileDownload.aspx?rid=248374&rType=2&file=Zakon%20o%20racunovodstvu.doc.

In 2017, there were 30 238 SMEs, making up 99.8% of the total business sector, compared to only 25 106 SMEs in 2013 (Figure 16.2). However, between 2013 and 2017 the share of large enterprises increased by 0.1 percentage point. In 2017, Montenegrin enterprises broke down into 94.4% micro enterprises, 4.5% small enterprises, 0.9% medium-sized enterprises and just 0.2% large enterprises (Figure 16.2). In terms of number of enterprises, Montenegro's business sector is clearly dominated by micro enterprises. They also contributed the greatest share of employment, with 39% of total business sector employment in 2017 (Figure 16.2). In comparison, micro enterprises in the EU accounted on average for only 29.4% of non-financial business sector employment in the same year (EC, 2018[25]). In total, 106 014 people were employed by SMEs in Montenegro in 2017, representing 80.1% of total business sector employment (Figure 16.2). This figure has slightly decreased since 2013 when SMEs represented 81.5% of all business sector employment, but was still much higher than the 2017 EU average of 66.4% (EC, 2018[25]). SMEs' contribution to the business sector's value added increased from 64.5% in 2013 to 70.5% in 2016 (Figure 16.2), much higher than the EU average where SMEs only accounted for 56.8% of the business sector's value added in 2017 (EC, 2018[25]). The most striking development between 2013 and 2016 in the SME sector in Montenegro was in SMEs' share of exports, which increased by 19.6 percentage points to reach 75.3% of all exports in 2016 (Figure 16.2).

The role of women in the Montenegrin SME sector has increased since 2013. According to data provided by the Statistical Office of Montenegro for this assessment, the share of SMEs owned by women in Montenegro increased from 14.9% in 2013 to 19.2% in 2016.

Figure 16.2. Business demography indicators in Montenegro (2013 and 2017)

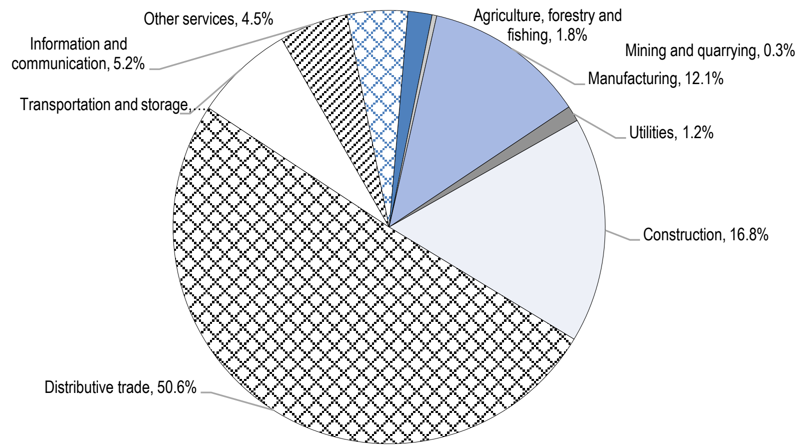


Note: Disaggregated data for micro enterprises have not been available for value added and exports. 2017 data for value added and exports has not been available. 2016 data was used instead.
Source: Statistical Office of Montenegro.

StatLink http://dx.doi.org/10.1787888933937907

On a sectoral level, the greatest number of SMEs are in distributive trade, representing 50.6% of active SMEs, followed by 16.8% in construction and 12.1% in manufacturing (Figure 16.3). The sectoral distribution of SMEs has remained mostly constant since 2013, although a rise (of almost 900 companies) was noted in the number of SMEs engaged in construction, whereas the number of enterprises engaged in transport and storage decreased by more than 360 in the same period.

Figure 16.3. Sectoral distribution of SMEs in Montenegro by sector (2017)



Note: The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Source: Statistical Office of Montenegro.

Geographically, about 37% of enterprises were located in Podgorica in 2017 (Table 16.4)

Table 16.4. Number of registered companies in Montenegro by enterprise size and municipality (2017)

Municipality	Enterprise size, by number of persons employed				Total	Share of total number of enterprises
	0-9	10-49	50-249	250+		

Andrijevica	69	3	0	0	72	0.24%
Bar	2767	93	11	2	2873	9.49%
Bijelo Polje	1032	48	10	2	1092	3.61%
Budva	3415	123	18	6	3562	11.76%
Cetinje	679	30	3	1	713	2.35%
Danilovgrad	497	29	10	0	536	1.77%
Žabljak	127	8	1	0	136	0.45%
Berane	489	23	7	0	519	1.71%
Kolašin	212	12	1	0	225	0.74%
Kotor	1176	69	12	0	1257	4.15%
Mojkovac	144	5	1	0	150	0.50%
Nikšic	1746	93	27	2	1868	6.17%
Plav	105	1	1	0	107	0.35%
Plužine	32	1	0	0	33	0.11%
Pljevlja	554	29	7	1	591	1.95%
Rožaje	561	21	1	0	583	1.92%
Tivat	1244	54	6	0	1304	4.31%
Podgorica	10432	605	150	33	11220	37.05%
Ulcinj	1008	30	4	0	1042	3.44%
Herceg Novi	2207	99	14	1	2321	7.66%
Šavnik	37	1	0	0	38	0.13%
Petnjica	18	2	0	0	20	0.07%
Gusinje	23	1	0	0	24	0.08%
Montenegro	28574	1380	284	48	30286	100.00%

Source: Statistical Office of Montenegro.

Assessment and recommendations

Process

The Small Business Act (SBA) assessment cycle for Montenegro began in Podgorica on 19 October 2017. A meeting was organised in co-operation with the Ministry of Economy, which acts as the SBA Co-ordinator nominated by the European Commission, and which is responsible for implementing the SBA principles (see Section Operational environment (Dimension 4)).

During the meeting, the new assessment framework (see Policy Framework and Assessment Process chapter and Annex A for details) was presented to the line ministries and public institutions which were to help collect the assessment information. The assessment framework's two primary documents – the questionnaire and statistical data sheet – were explained to participants in depth, giving particular attention to newly added questions and indicators.

Following the launch event, the Ministry of Economy distributed the questionnaire to the appropriate ministries and government agencies, and the statistical sheet to the Statistical Office of Montenegro (MONSTAT). These institutions compiled the data and documentation between October 2017 and January 2018 and completed the questionnaire. Each policy dimension was given a self-assessed score accompanied by a justification. The completed questionnaires and statistical data sheet were sent to the OECD team on 19 January 2018.

The OECD and its partner institutions reviewed the inputs and requested additional information on certain elements from the Ministry of Economy. They sent the updated questionnaire back to the OECD on 28 February 2018.

Meanwhile, the OECD and its partner organisations also carried out an independent assessment. This was based on inputs from a team of local experts in Montenegro who collected data and information and conducted interviews with key public and civil society stakeholders, including SME representatives. A preliminary reconciliation meeting was then held in Paris on 8 March 2018 to identify areas requiring further completion and harmonisation.

Having completed the government self-assessment and the independent assessment, the OECD and the EBRD held a reconciliation meeting in Podgorica on 27 March 2018. The meeting aimed to close any remaining information gaps in the questionnaire. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies, and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Montenegro. Similar meetings took place in Podgorica on 6-7 February 2018, focusing on two of the policy dimensions, entrepreneurial learning, and women's entrepreneurship and enterprise skills, whose assessment was led by the European Training Foundation.

The reconciliation meeting allowed the OECD and partner organisations to consolidate the assessment findings. They also evaluated the final scores under each policy dimension presented in this report (more information on how the scores are calculated can be found in Annex A). They presented the preliminary findings and scores to the SBA Co-ordinators at a meeting in Paris on 14 July 2018. The draft SME Policy Index publications and the SBA Assessment profile of Montenegro were made available to the Government of Montenegro for their review and feedback from August to October 2018.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 16.5).

For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

Table 16.5. Description of score levels

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

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

With a score of 4.08, Montenegro is one of the regional leaders on entrepreneurial learning (Table 16.6). It has also taken a significant step forward in developing policy for women's entrepreneurship, resulting in a score of 3.46.

Table 16.6. Scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	4.73	3.73
		Implementation	3.59	3.61
		Monitoring and evaluation	4.33	2.57
		Weighted average	**4.08**	**3.43**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	4.33	3.57
		Implementation	3.29	3.16
		Monitoring and evaluation	2.60	2.37
		Weighted average	**3.46**	**3.12**
Montenegro's overall score for Dimension 1			**3.83**	**3.31**

State of play and key developments

Entrepreneurial learning

Since 2008, Montenegro has been working to create a more entrepreneurial culture among its citizens. Active engagement by the National Partnership for Entrepreneurial Learning has helped to successfully implement the latest Lifelong Entrepreneurial Learning Strategy (2015-2019), making Montenegro an example of good practice in the region. The Strategy aims to improve the entrepreneurial mindset of children, young people and adults, including via formal and non-formal education and training.

As a result of implementing these learning strategies effectively (the first Lifelong Entrepreneurial Learning Strategy was adopted in 2008), Montenegro has made good progress in embedding entrepreneurship as a key competence at all levels of education.

Entrepreneurship as a key competence is part of a cross-curricular approach in pre-school education (from ages 3 to 6), primary education and secondary education. Since 2014/15, entrepreneurial learning has been taught in lower and upper secondary schools as an elective subject. Five upper secondary schools have started entrepreneurial clubs as an extracurricular activity to develop an entrepreneurial spirit and to gain practical knowledge and skills. The entrepreneurship module is compulsory in the new modularised vocational education and training (VET) programmes and the establishment of training firms was introduced within the economics courses. Entrepreneurship centres in four secondary vocational schools in Berane, Bijelo Polje, Bar and Mojkovac encourage students to consider careers in entrepreneurship or self-employment. The Bureau for Education is retraining teachers and school directors on how to concretely introduce entrepreneurship as a key competence into the classes, based on the European Entrepreneurship Competence Framework (EntreComp). In addition, guidelines for implementing entrepreneurial learning as a cross-curricular subject have been developed at national level. Examples of good practice in entrepreneurial learning are exchanged by teachers at regional and national level and good practice examples are published on the Bureau for Education's web-based platform.

In higher education, the University of Montenegro includes entrepreneurship as a discipline within its faculty of economics. In April 2016, the University of Montenegro signed a co-operation agreement with the capital city, Podgorica, which envisages areas of co-operation to strengthen students' entrepreneurial competences. A private university, the University of Donja Gorica, offers an applied degree programme called Entrepreneurship, Management and Business. The university also offers entrepreneurship courses to students in non-economic faculties, as either an optional or a mandatory course.

Good efforts are being made to increase pupils' practical entrepreneurial experience in upper secondary general education and VET; for instance through the introduction of work-based learning in VET. This requires a consistent focus on developing entrepreneurship skills alongside occupational skills. Article 81 of the new law on higher education in Montenegro (adopted in June 2017) made practical teaching obligatory. The challenge will be to include practical entrepreneurial experience for university students.

Building on the good results of adapting the curriculum to the entrepreneurship key competence approach, Montenegro has started to address the digital competences based on the European Digital Competence Framework (DigComp). In future, learning outcomes should embrace both entrepreneurship and digital competences.

The Entrepreneurial Learning National Partnership's mandate expires in 2019, as part of the Entrepreneurial Learning Strategy. It has made great efforts in monitoring the Strategy's implementation. Since 2015, the National Partnership has provided policy advice to the government on formal and non-formal entrepreneurial learning in a lifelong learning context. This policy advice role could be reflected in the partnership's future mandate.

Women's entrepreneurship

The government has paid more attention to women's entrepreneurship since the last assessment, resulting in a 5% greater share of women owners of micro, small and medium-sized enterprises (Ministry of Economy, 2018[26]). The annual action plan of the new Strategy for developing women's entrepreneurship (2015-20) includes measures to strengthen women entrepreneurs' competences and promote self-employment and start-ups. However, there are no financial resources linked to these measures, which puts the Strategy's implementation at risk.

Women's entrepreneurship activities are mainly project-based and driven from the bottom up through various private sector institutions (Chamber of Economy of Montenegro, Montenegrin Employer's Federation) and non-government organisations (NGOs) such as the Institute for Entrepreneurship and Economic Development, Business Women Association of Montenegro, Association of Women Entrepreneurs of Montenegro, and the Bar Business Start-up Centre. These organisations work in co-operation with government institutions, and with the support of international donors such as the United Nations Development Programme (UNDP), EU, EBRD and the World Bank.

The Montenegrin Government supports women's entrepreneurship through specialised credit lines within the Investment Development Fund, which is managed by the Ministry of Economy. The Employment Agency is preparing a new programme, "I will succeed", to provide training and financial support to a specific category of unemployed women. Also, the Montenegrin Federation of Employers supports women entrepreneurs through open calls and grants. However, beyond financial support, there is a lack of training programmes that specifically target women entrepreneurs. There are plans to establish a new guarantee fund for women's entrepreneurship; this would be an opportunity to target potential female entrepreneurs outside the capital, and to combine financial and non-financial support. But more co-ordination between government and non-government institutions is needed to make government support for women entrepreneurs better and more efficient. Not all women have equal access to information on the existing support services. It would therefore be useful to link all the relevant websites or create a dedicated portal where good practices can be shared and information aggregated on access to finance, training, mentoring and networking. Support for women's entrepreneurship is still concentrated around the capital. Therefore, it would be useful to raise awareness among officials in charge of economic development in the municipalities in order to spread support across the economy.

Since there is no formal national partnership responsible for monitoring and evaluating the women's entrepreneurship Strategy, policy makers have no feedback on what is working well and where the gaps are in order to improve specific policies and measures for this area. The Strategy is monitored on an annual basis by the multi-stakeholder working group that developed it, but this remains more of an administrative task than a structured dialogue between key stakeholders. At the Ministry of Human and Minority Rights, a National Commission was established to monitor implementation of the Action Plan for Gender Equality 2017-2021, which also collects information on implementing the women's entrepreneurship Strategy. Stronger co-operation among the National Committee on gender equality, the multi-stakeholder working group on women's entrepreneurship and all other actors would help to keep it on the political agenda. There is no evaluation report on women's entrepreneurship, and overall, there is a lack of gender-sensitive statistics to support evidence-based policy design and improvements on this issue.

The way forward for Dimension 1

Montenegro is keeping pace with Europe – and is ahead in some aspects – in implementing entrepreneurship key competences across all levels of education. The government will need to keep up these efforts to maintain its lead, and should also address the following:

- **Expand teacher training on entrepreneurship key competences to cover all teachers at all levels of education**. The Bureau of Education should continue to retrain teachers and school managers on how to integrate entrepreneurship key competences into the curricula at all levels of education.

- **Share good practice to create a positive image of entrepreneurship among young people.** Encourage all actors to systematically share their good practice in formal and informal entrepreneurial learning to promote entrepreneurship among young people. Better co-ordination and co-operation among the various actors implementing entrepreneurial learning (schools, universities, employer organisations, chambers of commerce, NGOs, and student or youth organisations) would increase the efficiency and impact of all efforts for creating a more entrepreneurial society.

- **Ensure that public universities modernise their curriculum by integrating entrepreneurship competences.** Entrepreneurship as a key competence should also be embedded in the curricula of non-economic and non-technology faculties, and practical entrepreneurial experiences should become common practice for all university students.
- **Institutionalise the National Partnership for Lifelong Entrepreneurial Learning.** The partnership's future role and financial sustainability needs to be decided, building on its long experience of monitoring entrepreneurial learning with a lifelong learning concept. The National Partnership should further develop its advisory role for policy makers by ensuring coherence and linkages across the different national policy areas of education, employment and economy. It should also ensure that entrepreneurial learning is covered at EU level in the accession negotiation chapters of the *acquis* (particularly Chapter 19, Social Policy and Employment, and Chapter 20, Enterprise and Culture) and in the Economic Reform Programme.
- **Foster an ecosystem for women entrepreneurship.** The multi-stakeholder working group in charge of annual monitoring of the women's entrepreneurship Strategy should establish formal co-operation with all relevant government and NGOs. This would allow the government to have a complete picture of women's entrepreneurship and to financially support implementation of the women's entrepreneurship Strategy.
- **Strengthen the monitoring and evaluation of women's entrepreneurship support initiatives.** More attention should be given to producing gender-sensitive statistics and conducting a national evaluation report on women's entrepreneurship in Montenegro in order to promote it further.

Bankruptcy and second chance for SMEs (Dimension 2)

Montenegro continues to be the WBT regional leader in this dimension, thanks to its efforts to bring its bankruptcy regulation closer to international standards. Since the last assessment, Montenegro's performance has remained unchanged, at 3.44, well above the regional average of 2.87 (Table 16.7).

Table 16.7. Scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**2.86**	**2.39**
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	4.33	3.71
		Performance, monitoring and evaluation	3.40	2.46
		Weighted average	**3.96**	**3.21**
	Sub-dimension 3.3: Promoting second chance		**1.90**	**1.93**
Montenegro's overall score for Dimension 2			**3.44**	**2.87**

State of play and key developments

The death rate[2] of companies has decreased since the last assessment, from 7.6% of active enterprises in 2015 to 5.5% in 2017. It should be underlined that only micro and small enterprises officially closed down in Montenegro during the assessment period. No company employing more than 49 employees has ceased to operate in the last four years.

Preventive measures and bankruptcy procedures

Montenegro's legal insolvency framework is based on the 2011 Insolvency Act (Box 16.2) and the law on voluntary financial restructuring of debts towards financial institutions, amended in June 2016. This law facilitates out-of-court settlements between debtors and creditors where at least one bank or secured creditor supports the reorganisation plan. The rationale is to find a compromise between helping financially distressed companies to survive and preserving macroeconomic stability. However, there are some controversial provisions in the law – for instance, a 75% majority of creditors[3] must agree for certain decisions to be enforced, regardless of the extent of their claims. Furthermore, the law does not provide any alternatives nor any possibility of appeal for creditors who do not share the same opinion as the majority, even when that creditor might hold half of the claims. Currently, as there is not enough information or impact assessment of this law, the outcomes need to be evaluated in the future.

The current legal framework allows creditors, the debtor or the liquidator (where the debtor has started the voluntary liquidation procedure), to file a petition initiating an insolvency proceeding. The court reviews the petition and decides on the inability of the debtor, company or entrepreneur to make payments. The law defines a debtor's inability to pay if their debts were not paid within 45 days from the date when the debts became due or if the debtor has completely suspended payments for a consecutive period of 30 days (permanent inability to make payments). Following the decision on the inability to make payments, the creditors can file a petition to initiate insolvency proceedings. The court then begins insolvency proceedings and the case progresses to one of two main procedures for companies in financial difficulty: bankruptcy resulting in liquidation or bankruptcy reorganisation.

1. **Bankruptcy resulting in liquidation:** the bankruptcy administrator releases management and the workers, sells the assets from the bankrupt estate and distributes the proceeds from the sale to the creditors, following payment ranks determined by the law.

2. **Bankruptcy reorganisation**: the debtor needs the consent of at least one creditor. A reorganisation plan may be proposed within 90 days from the date of opening insolvency proceedings; a maximum of 30 days is allowed under special circumstances. Within this timeframe, in order for the plan to be adopted, the majority of secured creditors need to approve it. However, after accepting the petition to initiate bankruptcy, the court may invite the petitioner to use a mediation procedure involving the mediation centre before adopting the decision to speed up the procedure.

Montenegro emerges as the best performer in the WBT region in terms of time and cost to resolve insolvency. It takes approximately 1.4 years to complete liquidation proceedings in Montenegro, while the OECD average is 1.8 years. The average cost is 8% of the estate, 1.6% less than the OECD average. Major expenses include remunerating the administrator (3%), attorneys' fees (3%) and fees of other professionals involved in the insolvency proceedings, such as accountants (1%) and an auctioneer (1%). Moreover, the recovery rate of 50 cents for every USD 1 is the highest in the WBT region.

Box 16.2. New insolvency regulations

The latest changes to Montenegro's insolvency laws were introduced in 2016, even though the initial Insolvency Law adopted in 2011 already closely followed the provisions set out in the United Nations Commission on International Trade Law Guide on Insolvency Law.

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

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

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

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

Source: Babić and Branović (2016[27]), *Insolvency/Restructuring in Montenegro*, www.schoenherr.eu/publications/publication-detail/insolvency-restructuring-in-montenegro-1/.

For preventive measures, no major progress has been made since the last assessment. The economy's early warning infrastructure remains undeveloped. The Central Bank collects data from different banks on entrepreneurs' blocked accounts and publishes them on its website,[4] allowing it to identify financially distressed companies before they file for bankruptcy. However, this system does not allow enough time for a customised reorganisation. The regulations also oblige the Central Bank to publish data in instances of forced collection procedures, specifically by revealing the names of legal entities/entrepreneurs, their registration numbers, blocked accounts as well as the number of uninterrupted days the account is blocked.

In addition, the Judicial Council publishes annual reports on court activities and results, which include statistical information on insolvency procedures (open, closed and in process). This requirement is established by the Law on the Judicial Council and provides reporting obligations on workload and case distribution among courts; it cannot be considered a monitoring and evaluation mechanism.

Promoting second chance

Montenegro does not promote giving a second chance to previously bankrupt entrepreneurs to start a new business. However, this may change quite soon. The recently adopted Strategy for the Development of Micro, Small and Medium-Sized Enterprises in Montenegro 2018-22 specifically highlights the importance of second chance policies, which are currently lacking (Ministry of Economy, 2018[26]). However, no concrete measures have been so far included in the Strategy's action plan.

The way forward for Dimension 2

- **Develop a fully fledged early warning system**. SME owners have a tendency to underestimate their financial difficulties and to resist taking action to alleviate their hardship. Therefore, Montenegro should consider introducing a system which would convince entrepreneurs to initiate recovery measures at an early stage. This system might take different forms, but should include certain features. First, it should devise special detection procedures that would screen for early signs of SMEs in financial difficulties. Second, these identified SMEs need to be approached and provided with advice on objectively assessing their financial situation, as well as the different recovery options available to them. If better informed, SMEs would be able to take the required steps at an earlier stage, thereby increasing their chance of survival. Early warning mechanisms established by EU Member States could offer a blueprint for Montenegro (Box 16.3).
- **Further simplify parts of the bankruptcy legislation**. A simplified procedure for reorganisation should be introduced by providing clear rules for an automatic debt discharge. This would allow bankrupt entrepreneurs to efficiently reintegrate as soon as the judicial decision is taken.

- **Improve the legal framework and develop initiatives to reduce the cultural stigma attached to entrepreneurial failure**. A clear distinction has to be made between measures or regulations that apply to fraudulent bankruptcies and those that apply to honest ones – this could be instrumental in changing society's attitude towards debtors. However, this type of amendment in the legal framework would not suffice on its own: it should be complemented by initiatives promoting a fresh start and a culture that is receptive and tolerant of failure. Workshops and seminars aimed at sharing the lessons learned from previously bankrupt entrepreneurs could break down stigma.

Box 16.3. Early Warning Europe

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

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

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

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

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

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

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

Source: Early Warning Europe (2018[28]), *Early Warning Europe website*, www.earlywarningeurope.eu.

Institutional and regulatory framework for SME policy making (Dimension 3)

Starting from an already high base in 2016 (3.93), Montenegro has further improved its performance in the 2019 assessment cycle (Figure 16.1). With a score of 4.24, it has become the top-performing economy for the institutional and regulatory framework dimension, together with Serbia. This enhanced performance is the result of improvements in each of the three policy aspects covered under this dimension (Table 16.8).

Table 16.8. Scores for institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.43	4.06
		Implementation	4.27	4.06
		Monitoring and evaluation	4.43	3.92
		Weighted average	**4.35**	**4.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	4.60	4.00
		Implementation	4.00	3.25
		Monitoring and evaluation	4.47	3.23
		Weighted average	**4.27**	**3.47**
	Sub-dimension 3.3: Public-private consultations	Frequency and transparency of PPCs	4.29	3.86
		Private sector involvement in PPCs	4.68	4.26
		Monitoring and evaluation	2.33	2.73
		Weighted average	**4.05**	**3.79**
Montenegro's overall score for Dimension 3			**4.24**	**3.79**

State of play and key developments

Institutional framework

The government adopted the new Strategy for the Development of Micro, Small and Medium-Sized Enterprises (2018-2022) (MSME Strategy) in July 2018. Following an analysis of Montenegro's SME sector, SME consultations and monitoring of the previous SME Strategy's implementation, the new Strategy identified the main challenges faced by SMEs. They are: 1) a complex business environment; 2) limited access to finance; 3) limited access to skilled employees and skills development; and 4) insufficient competitiveness.

The MSME Strategy addresses these challenges with the following strategic goals, including operational objectives and measures: 1) creating a stimulating environment for SME development and entrepreneurship (business environment, access to finance, knowledge and skills); 2) strengthening SME competitiveness (the entrepreneurship ecosystem, programming support, clusters, innovativeness and green economy, internationalisation); and 3) promoting entrepreneurship (women, youth and social entrepreneurship) (Ministry of Economy, 2018[26]). The Strategy contains clear and measurable – if rather ambitious – targets, an action plan and monitoring mechanisms. It has been linked to regional and EU strategy documents, and is based on the principles of the Small Business Act for Europe. All the measures are largely aligned with the findings of the 2016 SME Policy Index, such as the integration of entrepreneurship competences in curricula, or increasing the number of e-services available to businesses.

Preparations for the new Strategy were comprehensive and involved a record number of stakeholders. The government organised a Business Caravan which visited a number of municipalities in Montenegro, giving SME representatives an opportunity to share their views on the draft Strategy and express their needs and potential concerns (Box 16.4). In addition to this, and in order to improve the existing dialogue and partnership between the private and public sector in the process of creating the MSME policy, a working group for the preparation of the MSME Strategy 2018-2022 was established under the auspices of the Ministry of Economy. The working group consists of 80 members: representatives of all relevant ministries, institutions, universities, business associations and international donors.

According to reports, the action plans have mostly been implemented as planned. A former Directorate for SME Development was restructured in 2018 to become the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds. Under the auspices of the Ministry of Economy, it remains the institution responsible for SME policy design and the main body in charge of its implementation. Monitoring of the Strategy and action plan implementation is entrusted to the Ministry of Economy and the MSME Strategy 2018-2022 working group, which will prepare annual reports on the action plans' implementation, and submit them to government for adoption (Ministry of Economy, 2018[26]).

There are no strategic documents that aim to combat Montenegro's informal economy and the MSME Development Strategy does not have any specific measures in this area. However, the informal economy is recognised as an important issue more broadly, and efforts are being made to address it. There are for instance punitive measures towards the grey economy, such as more frequent tax inspections, more rigid controls and stricter penalties. The tax administration is the main institution responsible for implementing these measures to reduce the informal economy.

Legislative simplification and regulatory impact analysis

Work on regulatory reform started in 2009 in Montenegro. Since the previous assessment, the government has focused more on simplifying legislation and improving regulatory impact analysis (RIA) practices. To create a more favourable business environment, the government plans to reform the public sector in line with the Montenegro Development Directions 2018-2021, particularly via its Public Administration Reform Strategy 2016-2020 (Government of Montenegro, 2016[29]). One main measure is to introduce an e-government portal as a single point of access to e-services (EC, 2017[30]).

To simplify legislation, the government adopted the Regulatory Guillotine Action Plan in May 2012, comprising 1 446 recommendations to simplify and/or eliminate regulations. This is now in its final phase. The government's Report on Implementing the Regulatory Guillotine (Government of Montenegro, 2017[31]) states that around 90% of these actions (1 246 out of 1 446) were executed between 2009 and the end of the third quarter of 2017; due to regular delays in implementation, the reform efforts have been unsatisfactory so far and need to be intensified. With renewed impetus, the government expected the reform to be complete by the end of 2018 (EC, 2017[30]; Government of Montenegro, 2017[31]).

Regulatory impact analysis was formally introduced in 2012 and is mandatory for all new legislation (laws and by-laws), with an RIA report accompanying each legislative proposal submitted to the government for approval. Although Montenegro has a well-developed procedure for RIA, and the Ministry of Finance – as the central RIA unit in Montenegro – conducts the process efficiently, the quality of the RIAs could be improved. Namely, they do not always compare several policy options and lack other important elements, such as assessing impacts on the most affected stakeholders (EC, 2017[30]). These problems have been recognised by the Montenegrin Government – the new MSME Strategy (2018-2022) introduces a number of measures aimed at refining Montenegro's regulatory system, mainly through improvements to RIAs. It envisages more effective and broader application of RIAs at the national and local level (Ministry of Economy, 2018[26]). Some of the key measures in the Strategy include introducing the SME test (by 2020) and assessing competition distortion as an integral part of RIA. Some of its actions had already been taken in 2018, such as training officials in producing impact assessments of legislative draft proposals.

Public-private consultations

The general objective of Montenegro's Public Administration Reform Strategy 2016-2020 is to create an efficient and service-oriented public administration, characterised by improving its performance and increasing citizens' trust (Government of Montenegro, 2016[29]). All business-related legislation (both primary and subordinate) is subject to consultation in Montenegro. As of June 2018, RIA reports will also be published for public consultation purposes. In addition, line ministries are required to publish reports on the outcomes of consultations, including suggestions that were accepted and not accepted, with reasons for both. All ongoing public-private consultations (PPCs) and related reports are published on the e-government portal, which is regularly updated. Montenegro is also among the WBT economies that refrain from adopting laws via an urgent procedure without consultation – just 9% of all laws in 2016 were adopted in this way (OECD, 2017[32]). Only Albania has a lower share (5%).

There was a particularly strong emphasis in this assessment period on involving private sector representatives in developing public policies. As described above, the government tackled weak participation by SMEs in PPCs by contacting them directly using the Business Caravan (Box 16.4).

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

Finally, the Board of Small and Medium-sized Enterprises of the Chamber of Economy of Montenegro, created in 2015, has also been an effective advocate for SMEs in this assessment cycle. All Montenegrin SMEs are members of the board. It organises meetings at least quarterly and discusses topics that businesses find most relevant. These are then transmitted to the government in report form and discussed at the Council for Competitiveness.

Box 16.4 Montenegro's Business Caravan: reaching out to SMEs for a better business environment

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

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

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

Sources: Data provided by the Government of Montenegro as part of the SBA Assessment; Vijesti (2017[33]), *Babić: Biznis karavan daje rezultate [Babic: Business Caravan Gives Results]*, www.vijesti.me/vijesti/babic-biznis-karavan-daje-rezultat.

The way forward for Dimension 3

Montenegro has established an advanced institutional and regulatory framework for SMEs. The focus should now be on the following:

- **Ensure that the MSME Strategy is implemented effectively, given its wide-ranging and ambitious objectives and measures.** The government should build strong and timely co-ordination among the various stakeholders. As the main implementation body, the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds is especially important in this regard, in particular in maintaining close dialogue with the key actors implementing the Strategy. The Ministry of Economy and the newly formed Council for Micro, Small and Medium-Sized Enterprises also need to ensure that activities are regularly monitored and corrective actions taken if there are delays.
- **Enforce effective application of regulatory impact analyses**. Despite the existence of a well-developed procedure for RIA, its application remains far from ideal. The required analyses of the expected impact of legislative proposals are not always satisfactory in quality (e.g. often incomplete). Therefore, the government needs to enhance its efforts to first raise awareness of the benefits of

RIA, and second, build line ministries' capacity to undertake impact assessments and evaluate the effects of legislative proposals. The proposals' impact on SMEs should also be made a core part of the methodology for conducting RIAs.

Operational environment (Dimension 4)

Montenegro is one of three economies in the WBT to regressed in this dimension since 2016, from 3.62 to 3.29 (Figure 16.1), slightly below the regional average of 3.46 (Table 16.9). Montenegro's digital government services score (3.35) is slightly above that of the 2016 assessment, 3.27. For company registration, Montenegro's performance regressed from 3.90 to 2.93 between 2016 and 2019. However, for business licensing, Montenegro increased its score from 2.98 to 3.45 during the assessment period.

Table 16.9. Scores for Dimension 4: Operational environment

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for enterprises	Planning and design	4.29	4.07
		Implementation	3.80	3.47
		Monitoring and evaluation	1.40	2.05
		Weighted average	**3.35**	**3.29**
	Sub-dimension 4.2: Company registration	Design and implementation	4.40	4.48
		Performance	3.87	3.72
		Monitoring and evaluation	1.00	3.59
		Weighted average	**2.93**	**3.97**
	Sub-dimension 4.3: Business licensing	Licence procedures	3.93	3.67
		Monitoring and streamlining of licence system	2.97	3.18
		Weighted average	**3.45**	**3.43**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Montenegro's overall score for Dimension 4			**3.29**	**3.45**

Note: A new sub-dimension 4.4 on tax compliance procedures for SMEs was added at the request of the assessed economies, to better reflect the complexity of the overall picture of the operational environment for SMEs, however, as it is a pilot analysis this sub-dimension has not been included in the scoring.

State of play and key developments

Digital government services for enterprises

In September 2016, the Montenegrin Government adopted the Montenegro Information Society Development Strategy for 2016-2020. The Strategy defines the framework for improving Montenegro's information society, sets out directions for developing e-services in order to reach EU standards, and provides concrete targets to be achieved by 2020 (Ministry for Information Society and Telecommunications, 2016[34]). These include increasing the percentage of citizens who use e-services to 50%, and at least 30% of legal persons. The newly created Ministry for Public Administration, Directorate General for e-Governance and Information Security is the body responsible for implementing the Strategy.

The Strategy includes a specific chapter on e-government and foresees electronic services horizontally and vertically integrated into national and local administrations, in line with the Digital Agenda for Europe 2020. Some strategic targets include:

- **e-services:** improve existing and develop new electronic public services, including cross-border electronic services
- **interoperability**: establish a unique system for electronic data exchange at the state level
- **electronic identification (eID)**: adapt the existing structure and develop new eID systems and mechanisms, in order that service providers meet the new requirements
- **open data***:* make public administration data available in open formats for further use and processing (Ministry for Information Society and Telecommunications, 2016[34]).

Since the last assessment in 2016, several changes have been introduced in the legal framework, in line with the Information Society Development Strategy. In May 2017, the government adopted the Law on Electronic Identification and eSignatures, based on the EU eIDAS (Electronic Identification, Authentication and Trust Services) Regulation on electronic identification and trust services for electronic transactions in the internal market (N°910/2014). This legislation is a legal requirement for establishing an eID system, allowing enterprises to complete services entirely online, such as filing social security returns or cadastre. Private sector interviews found that e-signatures are widely used by enterprises.

A law on administrative procedure came into force in September 2017, introducing the "once-only" principle.[5] Its implementation has not been finalised at the time of writing, since full connectivity between different public institutions' databases had not yet been established – less than 50% of public institutions were able to view each other's data. SMEs are still therefore required to submit paper-based information that is already available in other public institutions' databases (company registration office, tax administration, social security administration and labour authorities).

Despite the strides made towards digitalising registers, not all of them are currently part of the government interoperability network, preventing the once-only principle from being fully implemented. The electronic data exchange information system that started with the government's Service Bus initiative has yet to integrate the following existing electronic registers: the central population register, the central business entities register, the register for children in educational institutions, pension and disability fund registers, tax administration registers and Employment Agency records. The integration process was expected to be finished by the end of 2018.

In October 2018, the tax administration launched a new service offering taxpayers digital access to the Central Registry of Taxpayers and Insurance Holders. The new function allows taxpayers who hold a digital certificate to access data from the main registry and employee data.

With regard to open government data, the Law on Amendments to the Law on Free Access to Information was adopted in 2017. It is fully compliant with Directive 2013/37/EU, amending Directive 2003/98/EC on the reuse of public sector information. This sub-law was adopted in July 2018 and the open data portal, www.data.gov.me, is fully operational, providing access to 29 datasets published by 8 institutions. Montenegro joined the Open Government Partnership in 2011 and was initially an active member. However, in July 2017 the Steering Committee of the partnership sent a request to other members to give Montenegro "inactive" status, as the government had not delivered an action plan to set concrete targets for the previous three cycles, which is one of the membership requirements. At the time of writing, the Ministry of Public Affairs was co-ordinating an action plan. Also, according to the latest Global Open Data Index conducted in 2016, Montenegro is ranked 49 out of 94 assessed economies, the third worst position after Bosnia and Herzegovina and Kosovo in the WBT region.

For monitoring and evaluation, the government is currently working to establish a system measuring user satisfaction with digital services. This system is expected to be operational at the end of 2018. Currently, the only monitoring is a follow-up email inviting users to complete an online survey about their satisfaction with the e-service and the portal in general.[6]

Business registration and licensing

Entrepreneurs in Montenegro can register their companies in one-stop shops available in eight regional tax administration units. The process can be completed with a single tax identification number. Online company registration is operational, but does not apply to every phase of the company registration process – the final payment must be done in person. A request to register business entities can be submitted through the e-government portal (www.euprava.me), while the service is only available to businesses who have created a user account and have a digital certificate issued by the Montenegrin Certification Authority (Box 16.5).

The company registration process assumes that "silence is consent"; officers have four working days to issue queries, and if no queries are issued within the time frame, firms are automatically deemed to be registered.

While the costs have fallen slightly from 1.5% to 1.3% of income per capita, the number of days and procedures to start a business has slightly increased since 2016, from 6 procedures and 10 days for registration to 8 procedures and 12 days in 2018. As result, Montenegro has fallen by 31 places rankings since the previous assessment and is ranked 87 out of 190 economies for ease of starting a business, according to the World Bank *Doing Business* report (World Bank, 2017[18]).

Enterprises can access detailed information on the requirements and procedures needed to obtain licences and permits through the central Licence E-register hosted by e-government portal (http://www.euprava.me/elicence1). This is an online database of all licences issued by the competent government authorities, administrative bodies and administrative agencies in Montenegro. The aim of the Licence E-register is to improve transparency and reduce regulatory risk for businesses by making information easily available on line for business licensing, including application forms, fees and documents that must be submitted. At the time of writing, information on 275 licences issued by 29 institutions at different levels can be found on line; however, only a limited number of licences and permits can be obtained on line.

In 2017, the government began working to streamline and simplify the licensing process. A working group of representatives from the Ministry of Finance, Ministry of Public Administration, Ministry of Economy and other relevant stakeholders created a roadmap for the process. According to the roadmap, the steps for simplification are: 1) revise existing business licence records; 2) collect and publish data relevant to licences on the e-government portal; 3) publish data and create electronic services on the e-government portal for each licence separately; and 4) adopt a framework that will ensure the project's sustainability. The licence simplification process is yet to be completed.

Box 16.5. Montenegro's eUprava portal

In accordance with the EU Digital Agenda for Europe 2020, in 2012 Montenegro introduced the Information Society Development Strategy 2012-2016. The document became a road map for developing Montenegro's information society, in order to reap the potential of ICT services for societal and economic progress. One of the main goals of the strategy was to create an e-government portal for delivering public services to citizens and entrepreneurs.

Accordingly, the eUprava portal was launched in April 2011 and initially provided 12 services, all in the Montenegrin language. In 2018, seven years after its creation, the portal operates under the Ministry for Public Administration and offers 527 services. eUprava provides key electronic registers such as the central population register, business entities register and register of immovable property titleholders. Moreover, the portal brings substantial benefits to SMEs by serving as a one-stop shop for entrepreneurs. Implementing e-services at each administrative level initially met with some resistance to change. To enable e-services to be developed further, the Montenegrin Government made them mandatory through the Law on Electronic Administration.

The introduction of eUprava was combined with technology upgrades, training for civil servants and clear instruction manuals. Despite still being in the process of development and adding new services, such as the Electronic Document Management System, and improving systems' interoperability, Montenegro's e-government ranked 58th out of 199 assessed economies in the world in the UN E-Government Survey 2018 (UN, 2018[35]).

Sources: Lazovic et al. (2015[36]), "Analysis of e-government portal in Montenegro", https://ieeexplore.ieee.org/document/7160504; Milonjić, M. (2016[37]), *Rhetoric or Reality? E-Government and the Reconceptualization of Service Delivery in Montenegro*, https://dgap.org/sites/default/files/article_downloads/institut_alternativa_egovernment.pdf; Government of Montenegro (2016[29]), *Public Administration Reform Strategy in Montenegro 2016-2020*, www.mna.gov.me/ResourceManager/FileDownload.aspx?rid=268749&rType=2&file=PUBLIC%20ADMINISTRATION%20REFORM%20STRATEGY%20IN%20MONTENEGRO%202016-2020.pdf.

Tax compliance procedures for SMEs

Montenegro does not provide SMEs with a presumptive tax regime for income tax, which would enable them to calculate income tax on a basis other than their income. Yet a presumptive tax regime could be an efficient way of reducing tax compliance costs for businesses and tax costs for the administration.

For value-added tax, lower-rate taxpayers who run businesses with an annual taxable turnover of less than EUR 18 000 can opt for lump sum compensation, in accordance with the rules on lump sum taxation.

The Montenegrin administration allows certain exemptions at the local level. In economically underdeveloped municipalities (including all northern municipalities, Cetinje and Ulcinj), newly established legal entities are exempted from paying corporate income tax for the first eight years of operation. Unincorporated businesses that commence an activity in such municipalities also have their personal income tax for the period of the first eight years reduced by 100%. However, the total tax holiday in both cases cannot exceed EUR 200 000 for the first eight years of operation.

The way forward for Dimension 4

Despite a relatively well-established institutional framework Montenegro needs to further enhance its operational environment for SMEs. To this end the government should address the following points:

- **Continue efforts to implement digital authentication or e-signatures** in order to get services fully on line. E-signatures or digital authentication allow users to complete all processes on line and would save time, as the current system requires their physical presence to complete some services.
- **Establish monitoring mechanisms for the business registration process**. During the assessment period no clear supporting evidence was found on the monitoring and evaluation of business registration. Improving this (i.e. by collecting relevant data) would enable the government to use evidence to tailor the business registration process in order to reduce its length and costs.
- **Finish streamlining the licensing procedures**. The licensing system should be regularly reviewed and streamlined to allow businesses to obtain licences in an easy and timely manner. The government needs to pursue its roadmap and simplify the licensing process.
- **Reduce compliance requirements for SMEs.** Although there are a number of tax exemptions for SMEs at the local level, there are no measures that reduce SMEs' compliance requirements for regular income taxes. Well-designed income tax provisions (Box 16.6), such as presumptive taxes and cash accounting, are greatly needed to reduce the disproportionate tax compliance burden on SMEs.

Box 16.6. Hungary: Two simplified tax regimes for SMEs

Hungary has two simplified tax regimes for small businesses. The first, KIVA (Small enterprise tax), is a cash-flow based tax which replaces corporate income tax, social contribution taxes and vocational training contributions. This tax applies at a rate of 16% of the tax base, which is based on the taxpayer's cash-flow profit and is increased by staff costs. The tax is available to entities with fewer than 25 staff and where the revenue and balance sheet for the previous tax year were below HUF 500 million (Hungarian forints, around EUR 1.55 million). The aim is to provide a simple framework to favour fast-growing and labour-intensive businesses, and to ensure that wage payments are neutral with regard to an employer's tax liability.

A second simplified regime in Hungary, KATA (Small taxpayers' itemized lump sum tax), is a lump-sum tax for the self-employed. Under this regime, full-time entrepreneurs registered as small business taxpayers pay HUF 50 000 (around EUR 155) per month in tax. Taxpayers may elect to pay HUF 75 000 (around EUR 230) per month in return for higher social security service eligibility. Part-time entrepreneurs pay HUF 25 000 (around EUR 77). The lump-sum tax is payable separately for each person registered as a small business taxpayer. It applies up to a revenue limit of HUF 6 million. Once revenues exceed this amount, tax is payable at 40% of the revenue exceeding HUF 6 million. Making KATA payments releases the taxpayer from corporate income tax, personal income tax, social contributions tax, and healthcare, pension, employment and vocational contributions. It does not, however, provide an exemption from VAT obligations, although the taxpayer may apply for the tax exemption detailed in the VAT section.

KATA was designed to counter informality and also allows simplified obligations for bookkeeping purposes.

Source: OECD (2015[38]), "Taxation of SMEs in OECD and G20 countries", https://doi.org/10.1787/19900538.

Support services for SMEs (Dimension 5a)

Since the 2016 SME Policy Index assessment, Montenegro has improved its performance in this dimension on business support services (BSSs) for SMEs – from an overall score of 2.95 to 4.03 (Figure 16.1). It now scores slightly above the WBT average score of 3.89. This progress on the overall dimension score reflects the improvements made to both the policy aspects covered (Table 16.10).

Table 16.10. Scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: Business support services provided by the government	Planning and design	3.96	3.84
		Implementation	4.05	3.68
		Monitoring and evaluation	3.08	3.19
		Weighted average	**3.83**	**3.63**
	Sub-dimension 5a.2: Government initiatives to stimulate private business support services	Planning and design	5.00	4.67
		Implementation	3.86	3.85
		Monitoring and evaluation	4.00	4.07
		Weighted average	**4.23**	**4.14**
Montenegro's overall score for Dimension 5a			**4.03**	**3.89**

State of play and key developments

Since 2016 Montenegro has made progress in its BSS provision for SMEs. Following expiry of the economy's main SME strategy document in 2015, the government's adoption of the MSME Strategy in July 2018 represents a major step forward for future BSS provision. This new Strategy benefitted from extensive consultations with key stakeholders and its action plan includes measurable targets for BSS provision, which will facilitate the future monitoring and evaluation process. For example, the Strategy's action plan foresees the expansion of the mentoring programme, with a 2017 baseline value: "21 mentors trained to provide mentoring services" and a measurable target for 2020: "more than 45 mentors trained to provide mentoring services" (Ministry of Economy, 2018[26]).

Since the last assessment, various institutions have mapped the supply and demand of BSSs in Montenegro. On the supply side, the Ministry of Economy worked with the United Nations Industrial Development Organization (UNIDO) to map BSS providers in 2017, creating an Excel spreadsheet with information on more than 300 public and private BSS providers. The spreadsheet is available to SMEs on the ministry's website (Ministry of Economy, 2017[39]). On the demand side, the Chamber of Economy and the Montenegrin Employers Federation collect data on SMEs' skills needs individually (for more information, see Section Operational environment (Dimension 4)). Similarly, Montenegro's Employment Agency has been conducting an employers' survey annually since 2007 that sheds light on skill shortages and the demand for skills. Given that more than 98% of respondents are SMEs, the survey's results also reflect SMEs' skills needs. However, while the Employment Agency makes use of these surveys to adapt its training offer, the results have not been used by the other relevant public institutions to create a single co-ordinated and harmonised BSS offer at the national level.

The leading institution for BSS provision is the Ministry of Economy, via its Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds. This directorate was set up in January 2018 as part of a larger restructuring process with the objective of providing SMEs with a one-stop shop for BSS provision. In 2018, it was staffed with 20 employees and a budget of about EUR 600 000. The directorate provides training and mentoring to SMEs under the Ministry of Economy's Business Stimulating programmes. In 2017, the directorate provided nine Business Stimulating programmes in co-operation with the UNDP, ranging from business zone development and cluster development to processing industry modernisation. The budget allocated to these nine programmes in 2018 was EUR 1.5 million. Since 2012, the directorate has also been providing mentoring services to SMEs with the support of the Japanese International Cooperation Agency (JICA). The mentoring support follows the business support methodology developed by Serbia's former National Agency for Regional Development in co-operation with JICA and offers the same activities. In Serbia, where the programme was already standardised in 2008, it achieved very positive results (see Box 16.7).

Box 16.7. The Development Agency of Serbia's standardised mentoring service

Background

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

Programme activities

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

The programme allocates an expert mentor to spend a certain number of hours (from 25 to 50 hours per beneficiary) at the beneficiary's premises. The mentor and the SME's director jointly conduct a diagnosis to understand the business's operations, the reasons for any current problems or obstacles to further development, and the areas with the most growth potential. Based on the factors identified, the mentor and the beneficiary prepare a plan/development project. The business support plan could potentially relate to any functional area of the enterprise, including organisational structure, human resources management, financial management, logistics and distribution, production-technological processes, intellectual property, and quality systems. Depending on their needs, mentors could also refer SMEs to more specialised consulting services.

Impact

- 2005-06: 37 civil servants received certified training by JICA
- 2006-09: more than 700 businesses supported
- 2011-12: 268 SMEs supported

- 2013-14: 213 SMEs supported
- 2015-16: 204 SMEs supported
- 2017: 253 SMEs supported

Results and feedback from SMEs (up to 2015)

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

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

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

Success factors

While the programme faced a number of challenges during its planning and implementation phase due to bureaucracy and public sector systemic delays, it nonetheless achieved all its objectives. Furthermore, its results were so positive that they led to the mentoring programme being institutionalised in 2011 as a standard service for SMEs in Serbia, delivered by the RAS with support from JICA.

Source: (RAS, 2017[40]), *Create Life: Public Call for the Implementation of Standardised Mentoring Service,* http://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-the-implementation-of-standardised-mentoring-service; information collected from RAS over the course of this assessment.

The directorate also co-ordinates projects with Montenegrin SMEs in the Enterprise Europe Network. Business support services are also available to SMEs through the Investment and Development Fund of Montenegro, which offers training on financial literacy and business plan development, information on financing opportunities, and loans to SMEs and specific target groups (e.g. women and young entrepreneurs). Montenegro's Employment Agency provides training to the unemployed and to potential entrepreneurs. Through the Programme for Continuous Stimulation of Employment, it provides annual two-day training courses to improve SMEs' entrepreneurship skills. In 2018, these three institutions collaborated to provide SMEs with both non-financial and financial support through two programmes: the Support to Entrepreneurship Development Programme and the Programme for the Development of Entrepreneurship in Art and Culture. Prior to applying for the fund's loans under these programmes, SMEs or potential entrepreneurs need to complete dedicated training delivered by either the directorate or the Employment Agency. Co-financing is available to SMEs under five of the nine Business Stimulating programmes. For example, under the Regional and Local Competitiveness Boosting programme, SMEs' costs for complying with certain international product standards are co-financed, up to 60% for medium-sized enterprises and up to 70% for small enterprises, with an upper support limit of EUR 5 000. Under the Innovation Enhancing in SMEs programme, SMEs in the processing industry that meet the eligibility criteria can receive co-financing for 50% of the cost of using consultants, to an upper support limit of EUR 2 500 in 2016 (increased to EUR 3 500 in 2017). The beneficiary is required to cover the consulting costs in full and the costs are reimbursed after project completion.

According to data received for this assessment, 1 735 SMEs benefitted from publicly (co-)funded BSSs in 2017. This figure corresponds to 5.7% of the economy's SMEs. By comparison, 18.6% of SMEs in Turkey used publicly funded BSSs in 2017, and 2.9% of SMEs on average in the other five Western Balkan economies.

Montenegro monitors its various business support services but beneficiaries' feedback on services is rarely taken into account. The directorate's monitoring feeds into the Ministry of Economy's annual performance reports, which are publicly available on the ministry's website. However, while the directorate uses surveys to collect feedback from participants in its mentoring programme, it does not collect feedback from SMEs that have benefitted from its other BSS programmes. The directorate has continuously monitored the previous SME strategy implementation and the results helped to better tailor the newly adopted MSME Strategy. The Business Caravan project carried out in 2017 (see Box 16.4) by the Ministry of Economy, in co-operation with the UNDP, was also a noteworthy initiative. As part of the project, ministry representatives held meetings with private sector representatives in 14 municipalities to present existing BSS programmes and to receive feedback on them. This feedback was then used to prepare the new SME Strategy.

The way forward for Dimension 5a

Despite the progress in the provision of BSSs, some challenges remain. Future steps should include:

- **Conduct regular training needs analyses at the national level and an independent evaluation of business support services**, to better adapt them to SMEs' actual skills needs and to harmonise the BSSs offered by different public institutions. While several institutions collect data on SMEs' skills needs individually (the Employment Agency, the Chamber of Economy and the Montenegrin Employers Federation), a common analysis based on a larger and more diverse SME population could make findings more representative. Subsequently, it would help to fill in the gaps in BSS provision, to better target the support provided and to create more effective BSS provision systems. It would particularly help to tailor the BSS offer to the characteristics of micro and SME beneficiaries, to their sector, and to their stage of development – as well as to their actual experience in the market. Montenegro should also consider calling in an independent institution to conduct an in-depth evaluation of the BSSs offered by the directorate, the Investment and Development Fund and the Employment Agency, assessing the impact of BSS programmes according to key performance indicators and making sure to avoid overlaps.
- **Provide easier access to information on business support services** to stimulate SME uptake. In 2017, only 6.2% of Montenegrin SMEs used a publicly (co-)financed BSS. SMEs' take up of EU and regional funding instruments, such as COSME and the Western Balkan Enterprise Development and Innovation Facility, also represents a challenge (EC, 2018[3]). SMEs surveyed as part of this assessment were often not aware of BSS opportunities. The Business Caravan project is a welcome initiative, and similar projects should be pursued to increase

SMEs' awareness of the BSSs available. Nonetheless, given that several public institutions (in addition to international donors) provide BSSs in Montenegro, information about the services available is fragmented. Co-ordination should be strengthened among the respective institutions' information channels to create a common communication strategy and a single, centralised web portal.

- **Introduce a quality assurance mechanism for the private sector consultants and trainers** that SMEs are required to use under co-financed support programmes (such as an accreditation system). Currently, SMEs in Montenegro can freely choose private sector consultants or trainers under co-financing programmes such as Innovation Enhancing in SMEs. Montenegro should consider introducing an accreditation system to make sure that private sector providers have a minimum required level of experience and qualifications. It could later limit co-financing support for private sector consultants and trainers to those providers who have accreditation. This would guarantee service quality, with a positive effect on SMEs' growth. It would also encourage SMEs to seek the benefits of privately delivered BSSs.

Public procurement (Dimension 5b)

Montenegro obtained a weighted score of 3.87 for public procurement in this assessment (Table 16.11), the second highest score for all the assessed economies. However, it is lower result than its 2016 score of 4.0 (Figure 16.1).

Table 16.11. Scores for Dimension 5b: Public procurement

Dimension	Thematic block	Montenegro	WBT average
Dimension 5b: Public procurement	Policy and regulatory framework	4.53	3.92
	Implementation	3.39	4.05
	Monitoring and evaluation	4.16	3.24
Montenegro's overall score for Dimension 5b		**3.87**	**3.84**

State of play and key developments

The Law on Public Procurement (PPL) adopted in 2011 is the basic legal act for public procurement, with the latest amendment in 2017. From the point of view of SME access to the public procurement market, the changes to the 2017 amendment present a mixed picture. The lower threshold for applying the PPL has been raised to EUR 15 000 for supplies and services and EUR 30 000 for works. For contracts below those values, contracting authorities are obliged to follow less formal, simplified procedures set by the contracting authorities themselves, but in accordance with general instructions provided by the Public Procurement Office (PPO). This gives SMEs the chance to apply for smaller value contracts without needing to fulfil onerous procedural requirements – provided that the contracting authorities follow transparent and competitive procedures. The amendment also raised the maximum value of fees for submitting appeals to the review body from EUR 8 000 to EUR 20 000.

Montenegro has the highest share of public procurement as a proportion of GDP among the WBT economies, as well as one of the highest shares of contracts awarded to foreign economic operators[7]. The provisions of the Law on Public Procurement are mostly based on the 2004 EU directives, while the draft of the new PPL will implement the 2014 EU directives. The current PPL offers a number of solutions for facilitating economic operators' access to public procurement, such as dividing procurement into lots, allowing consortia to participate in public procurement procedures and ensuring that suppliers' requirements are proportionate and contract-related. Public procurement provisions allow for advance payment to the contractors before the full execution of a contract. Advance payment is, however, subject to the submission of a special guarantee. Contracts awarded on the basis of the most economically advantageous tender criterion are much fewer than those based on price alone, although the use of non-price criteria is slightly higher than in other economies in the region. Contrary to the EU *acquis*, Montenegrin procurement provisions set limits on the maximum share of a contract which may be subject to subcontracting (up to 30% of the contract's value).

The Public Procurement Office (PPO), the main institution responsible for public procurement, explicitly tackles the issue of obstacles faced by SMEs. It has published a *Guide to Promote the Participation of Small and Medium-Sized Enterprises in the Public Procurement Market in Montenegro*, which will form part of its training programme (Government of Montenegro Public Procurement Agency and World Bank, 2017[41]). In 2016, the PPO organised four roundtable meetings with contracting authorities, dedicated specifically to the issue of SMEs participating in public procurement procedures.

Bidders, defined as persons or entities who have submitted tenders in public procurement procedures, have the right to appeal against contracting authorities' decisions. "Interested persons" may also appeal – those who had requested clarification about tender documents and who have proved that they suffered or could have suffered damage because of a decision by a contracting authority.

The main body in charge of reviewing economic operators' complaints about public procurement procedures is the State Commission for Control of Public Procurement Procedures (SC). Appeals must be submitted through the contracting authority concerned. Appeals must be submitted within ten days, counting from the day the contracting authority's decision is delivered (on selecting a tender or cancelling a procurement procedure). The contracting authority is obliged to deliver the appeal and its response to the SC, together with all related documents, within eight days of receiving the appeal. If the contracting authority finds that there are grounds for appeal, it may annul the challenged decision, correct the performed acts or terminate the whole procurement procedure. An appeal submission causes the whole procurement procedure to be suspended until the SC has made its decision.

The way forward for Dimension 5b

Montenegro has established a solid institutional and regulatory framework for public procurement. There is room to improve support for economic operators, however, as the Montenegrin authorities state that central government offices do not offer economic operators specific training on procurement. Montenegro should give more attention to the following:

- **Further align national legislation with EU rules and international good practice**. In particular:
  - remove limitations on subcontracting, such as the maximum percentage of the procurement contract that may be subject to subcontracting
  - complete the process of implementing the 2014 EU directives on public procurement.
- **Further reduce the administrative burden of participating in public procurements**. In particular, ensure that supporting documents are required only from bidders whose offers were evaluated as the most advantageous. In principle, the bidder should only be required to submit a declaration with their offer confirming that they satisfy the requirements imposed by the contracting authority, and that they can provide documentary evidence if the contracting authority demands it. Introducing mandatory e-procurement in line with the 2014 EU directives, especially for submitting tenders in electronic form, would also reduce bidding costs, facilitating SMEs' access to public contracts.
- **Increase the use of non-price criteria for awarding contracts** to enable public buyers to receive best value for money. The Public Procurement Office should encourage contracting authorities to apply non-price criteria by providing them with manuals, guidelines, instructions and examples of good practice.
- **Monitor the way that simplified public procurement procedures are applied**, particularly their transparency and competitiveness, below the threshold at which the PPL applies.

Access to finance for SMEs (Dimension 6)

Montenegro has made progress in facilitating SMEs' access to finance since the last assessment (OECD, 2016[42]). With an overall score of 3.49 (Table 16.12), Montenegro represents the median for the region, scoring slightly ahead of Albania, Bosnia and Herzegovina, and Kosovo, but below the remaining economies. Most progress has been made in the area of non-bank finance, reflecting the entry into force of a new law reforming legislation in this area in 2018.

Table 16.12. Scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	5.00	4.20
		Registers	4.58	4.58
		Credit information bureaus	4.42	4.55
		Banking regulations	3.50	3.79
		Stock market	4.00	2.93
		Weighted average	**4.41**	**4.14**
	Sub-dimension 6.2: Bank financing	Banking lending practices and conditions	2.07	2.92
		Credit guarantee schemes	1.00	2.30
		Weighted average	**1.64**	**2.67**
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	4.67	3.57
		Leasing	2.33	2.84
		Factoring	3.00	2.45
		Weighted average	**3.33**	**2.95**
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	1.67	2.32
		Design and implementation of government activities	1.54	2.48
		Monitoring and evaluation	1.00	1.48
		Weighted average	**1.48**	**2.22**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	2.33	2.44
		Monitoring and evaluation	1.00	1.19
		Weighted average	**2.07**	**2.19**
Montenegro's overall score for Dimension 6			**3.49**	**3.53**

State of play and key developments

Legal and regulatory framework

Montenegro benefits from a well-developed and robust legal and regulatory framework, which supports lending and protects creditors' rights. It has implemented Basel II recommendations, while implementation of Basel III recommendations is expected to be finalised in 2019 and envisage some exemptions for SME lending.

A cadastre system and registration system for pledges over movable assets are in place and fully functional; the cadastre's coverage has increased to 75%, and covers 100% of urban territory. As for the previous assessment, the registry is available on line, though registration continues to be off line.

Public credit registry coverage has improved significantly, according to the World Bank *Doing Business* report: 56.6% in 2018 of the adult population, compared to 26.0% in 2015 (World Bank, 2018[43]). This is estimated to be close to 100% of all debtors, indicating limited levels of financial intermediation in the economy. However, a continuing challenge is the unavailability or unreliability of borrowers' audited financial statements and an inability to independently verify linkages among counterparties. There are plans to expand the credit registry with data from non-financial institutions in 2019, which may increase coverage further. The government is also in talks with a power company to pilot incorporating some of their consumer data to enhance credit information, while trying to balance this with data protection. The economy still does not have a private credit information bureau.

Some progress has been made in facilitating access to capital markets. A new law on capital markets was adopted in January 2018, making the system more compliant with EU standards and establishing a legal framework for multilateral trading platforms. This, in theory, would enable SMEs to register on an SME growth market; however, there are currently no plans to establish such a dedicated SME multilateral trading platform, as capitalisation and trading volumes of the Montenegrin stock exchange remain low. To date, Montenegro has not yet joined the regional SEE link, which would help local enterprises to exploit capital market finance opportunities.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Bank finance continues to dominate the financial sector, and the banking sector has stabilised in recent years thanks to increasingly sound solvency and liquidity indicators. The high level of non-performing loans (NPLs), identified as a key constraint for private sector lending in the previous report (OECD, 2016[42]), has fallen dramatically to just above 7% at the end of 2017. The definition of NPLs, however, does not exclude impaired assets that have adequate collateral. The diminishing number of NPLs has encouraged lending, which has grown by over 8% in 2017 and is recovering from years of subdued performance. While some banks have increased the share of SMEs in their lending portfolio, there is still substantial credit exposure to the public sector; with some banks having over 15% of their total assets in the public sector. In addition, the banking sector – now comprising 15 banks in total following the market entry of a new local bank since the last assessment – remains largely foreign-owned and requires consolidation in the coming years to increase resilience and reduce the risk of external shocks. A shift of lending activity towards locally owned and newly established banks may equally create asset problems, and more competition may present a challenge for bank profitability and asset quality.

Montenegro is currently preparing a first EUR 1 million SME guarantee scheme, and the government's Investment and Development Fund continues to provide significant finance to SMEs directly or indirectly via local commercial banks at reduced interest rates. The fund offers significant lending to SMEs and sub-segments, such as women, for instance, at preferential interest rates. Supervision of the fund has recently been transferred to the Central Bank of Montenegro, thereby imposing stricter requirements on capital adequacy ratios to improve risk management, which is likely to reduce the risk of crowding out the private financial market.

Good progress has been made in the area of enhancing non-bank financial instruments. The authorities have closed supervision gaps by bringing non-bank financial institutions under the supervision of the Central Bank. The newly adopted Law on Financial Leasing, Factoring, Purchase of Claims, Micro-credit and Credit-Guarantee Issues in 2017 provides the framework for credit guarantee schemes, factoring and leasing. The EBRD has helped draft the legal framework for leasing and factoring. Factoring has already gained some momentum as volumes are up, and the new legal framework is expected to further boost the market's appetite. Microfinance also expanded to a volume of EUR 60 million at the end of 2017, thereby almost reaching pre-crisis levels.

Venture capital (VC) is practically non-existent and the local business angel network is limited. Montenegro has contributed to the Enterprise Innovation Fund, and new legislation on collective investment schemes and the establishment of alternative investment funds is currently underway which will regulate VC in the future. Crowdfunding is also being considered, but there are no concrete plans to introduce it at present.

Financial literacy

Although financial literacy and training are increasingly incorporated into the secondary school curricula, there is no consolidated platform or dedicated national strategy in place to promote financial literacy across the economy. Financial training through the General Directorate for Investments, Development of SMEs and Management of EU Funds and other business organisations is limited and ad hoc.

The way forward for Dimension 6

Despite improvements, access to finance remains a major obstacle to doing business for SMEs. Ensuring the continued stability of the banking sector and overcoming information asymmetries within the system could help ease finance for SMEs. The following measures could be important to implement:

- **Strengthen banking sector stability**. In light of increasing competition among financial institutions, the banking sector requires consolidation and continued tight supervision. The decision to move supervision of the publicly owned Investment and Development Fund to the Central Bank is positive but, amid fierce competition, further efforts are required to ensure that banks, both foreign and domestic, remain committed to sound banking principles.
- **Enhance credit information**. Montenegro should consider expanding the coverage and granularity of the credit information system, which will enable smaller companies without a decent credit history to access finance. The decision to include information from non-bank financial institutions is a positive move, but further efforts could include improving the timeliness of information collected and distributed, and incorporating information from retailers and utilities. This could also be achieved by encouraging a private credit bureau to be established, which would collect data beyond the financial sector.
- **Introduce alternative equity-based finance.** In the absence of viable equity-finance options through VC, angel networks or listings, introducing crowdfunding into the legislative framework could provide a feasible alternative source of finance for start-ups that have growth potential and funding needs.

Standards and technical regulations (Dimension 7)

With an overall score of 3.99 for standards and technical regulations (Table 16.13), Montenegro is one of the best-performing economies in the region, alongside Serbia and Turkey. The economy would have upheld or improved on its previous assessment score of 4.01 (Figure 16.1), if it were not for its weak performance in the newly added sub-dimension, SME access to standardisation. Although progress has been made in transposing technical regulations and conformity assessment, Montenegro is not fully prepared for the free movement of goods to the EU.

Table 16.13. Scores for Dimension 7: Standards and technical regulations

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures	-	3.00	3.12
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	3.93	3.87
		Standardisation	4.00	3.97
		Accreditation	4.69	4.53
		Conformity assessment	4.00	3.65
		Metrology	5.00	4.47
		Market surveillance	5.00	4.43
		Weighted average	**4.44**	**4.15**
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	4.33	4.24
		SME participation in developing standards	2.50	2.57
		Financial support to SMEs	1.80	2.39
		Weighted average	**2.88**	**3.07**
Montenegro's overall score for Dimension 7			**3.99**	**3.83**

State of play and key developments

Overall co-ordination and general measures

The Ministry of Economy is responsible for the overall policy co-ordination of technical regulations and quality infrastructure in Montenegro. The free movement of goods section in the Programme of Accession of Montenegro to the EU 2014-2018 constitutes the overarching policy document guiding the transposition of EU *acquis* in this area.

In line with the programme and its action plan, Montenegro has completed the transposition of EU sectoral legislation in priority sectors. Although not mandatory under EU legislation, there is currently no designated portal or contact point to assist SMEs in placing their products on the EU Single Market. Putting this in place would relieve Montenegrin SMEs from the burden of gathering fragmented information from different sources.

Harmonisation with the EU acquis

Montenegro's legal framework for quality infrastructure is largely aligned with the EU *acquis*. It has prepared a new draft law on technical requirements for products and conformity assessment, for which public consultation was completed in September 2018.

This law aims to further harmonise provisions with Decision No 768/2008/EC on a common framework for marketing products, requirements for conformity assessment bodies (CABs) to be notified to the European Commission, notification procedures and procedures for conformity assessment.

Montenegro has also adopted strategies and action plans for developing standardisation and accreditation systems. Since 2016, the Institute for Standardisation of Montenegro (ISME) adopted a total of 3 925 standards and related documents that are identical to European standards. However, only 73.3% of the European Committee for Standardization (CEN) and 68.2% of the European Committee for Electrotechnical Standardization (CENELEC) standards have been adopted. As the national standards body, ISME is currently an affiliate member of CEN/CENELEC and seeks to become a full member by 2020. In order to achieve this, ISME needs to raise the adoption rate of European standards to 80%. Montenegro also plans to review the standards already adopted, aiming to review 2 081 standards in 2018 and 2 153 in 2019. However, ISME only has 15 employees, while the Standardisation Development Strategy for Montenegro 2015-2018 prescribes 32. ISME has also yet to upgrade its information technology (IT) system with new software for communicating with the CEN/CENELEC system, and has said that an upgrade is unlikely without an increase in its budget. ISME is a correspondent member of the International Organization for Standardization, and an associate member of the International Electrotechnical Commission.

The Accreditation Body of Montenegro (ABM) is an associate member of the International Laboratory Accreditation Cooperation and a full member of the European co-operation for Accreditation (EA). However, the ABM has not yet signed the EA Multilateral Agreement (EA MLA) which would formally recognise the Montenegrin accreditation system's equivalence and equal competence with those of EU Member States. The ABM cited a lack of sufficient financial resources as the reason for postponing its application. Nevertheless, it plans to submit the application by mid-2019 for EA MLA status for testing, calibration, certification and inspection. By comparison, Turkey has signed an EA MLA covering seven areas of accreditation. A successful application would require further budget and staff increases in order to carry out regular peer evaluations.

Montenegro's conformity assessment legislation is in line with the EU *acquis*; however, the ABM anticipates the need for additional assessors due to the growing demand for conformity assessment body accreditation. Since 2016, the number of accredited CABs in Montenegro has increased from 29 to 33: comprising 21 testing laboratories, 2 calibration laboratories, 6 inspection bodies, 1 CAB for product certification, and 3 CABs for management system certification. More CAB accreditations are also being prepared, for medical laboratories and personnel certification.

The law on metrology is in line with the EU *acquis*. However, with only 43 employees of the 52 prescribed by the Metrology Development Strategy 2016-2018, the Bureau of Metrology remains understaffed. While its budget has increased slightly, the bureau's premises are inadequate and its availability is not assured for the long term. By integrating the Bureau of Metrology into international structures, Montenegro could ensure that measurement results are comparable worldwide, thus supporting its SMEs' integration into international value chains. The Bureau of Metrology is a full member of the European Association of National Metrology Institutes and of the European Cooperation in Legal Metrology, as well as a correspondent member of the International Organization of Legal Metrology. In 2018, it became further integrated into the international metrology system by signing the Metre Convention and becoming a full member of the International Bureau of Weights and Measures.

In the area of market surveillance, a new Law on General Product Safety was adopted in 2017 in line with the EU *acquis*. Based on existing legislation for product safety and market surveillance, a total of 1 515 inspection controls were carried out in the Montenegrin market, of which 425 inspections involved proactive surveillance and the rest reactive surveillance. As a result, 105 products were permanently removed from the Montenegrin market. However, Montenegro's market surveillance capacities are still weak and only a moderate increase in the number of staff (ten more employees) is planned by 2020. Given the growing need for product sampling and inspections in Montenegro, market surveillance will need additional budget and human resources.

SME access to standardisation

Montenegro has introduced only basic measures to facilitate SMEs' access to standardisation. ISME informs SMEs about the adoption of new standards and organises seminars to introduce them to the public. In 2017, ISME launched a new website, but has yet to develop it fully; it does not provide practical guides on implementing standards or successful case studies on the benefits of using them. However, ISME has regularly co-organised events with the Chamber of Economy of Montenegro to raise awareness among SMEs of the importance of implementing standards; as well as sharing experiences and promoting SMEs that have implemented standards. These events are organised three times a year.

Montenegro has not introduced any financial support measures to help SMEs acquire standards and participate in their development. To provide financial support for implementing standards, Montenegro runs a programme to enhance regional and local competitiveness by complying with international business standards. The programme provides financial support to SMEs, particularly those from less developed municipalities, and aims to support compliance with international product standards by reimbursing business up to 70% of the certification costs. While 34 SMEs benefitted from the programme in 2017, the draft action plan for the new MSME Strategy 2018-2022 foresees the number increasing to 100 SMEs and an overall programme value of EUR 420 000 (Ministry of Economy, 2018[26]).

The way forward for Dimension 7

Montenegro has made significantly progress on aligning its quality infrastructure legislation with the EU *acquis*, but several challenges remain. To address them, the government should consider the following:

- **Establish a single source for information tailored to SMEs** on standards, regulatory requirements and conformity assessment procedures for SMEs interested in exporting to the EU Single Market. This would greatly benefit SMEs in Montenegro, who are often forced to search for relevant information from various government agencies. Comprehensive information should also be provided on government support mechanisms for exporters to the EU Single Market.
- **Increase the adoption rate of European standards.** Although the Standardisation Development Strategy for Montenegro 2015-2018 foresees adopting all applicable European standards by the end of 2018, the rate currently

stands at 73.3% of CEN standards and 68.2% of CENELEC ones. Montenegro has therefore yet to reach an 80% adoption rate, one of the criteria for full membership of CEN/CENELEC. To transpose European standards at a faster rate, ISME needs more human and financial resources. It has only 15 employees out of the 32 stipulated by the standardisation strategy, and investment is needed to upgrade its IT system with software for communication between CEN/CENELEC and national standards development bodies.

- **Step up efforts to sign the EA Multilateral Agreement.** Policy makers must ensure the recognition of national accreditations as an authoritative statement on the competence and credibility of CABs. Montenegro has yet to sign the EA MLA, which would recognise the equivalence, reliability and therefore acceptance by the European market of certification, inspection and calibration certificates issued by accredited CABs in Montenegro. As a consequence, Montenegrin CABs have a below-par reputation outside their national borders, and the SMEs they have assessed can be required to undergo additional conformity assessments by CABs in the European Union. Montenegrin SMEs are therefore compelled to undergo double assessments in order to enhance their competitiveness in the EU market. The Montenegrin authorities should ensure that the ABM has adequate capacity to successfully undergo EA MLA peer evaluation, including the document review and on-site evaluations.

Enterprise skills (Dimension 8a)

Montenegro scores 2.35 for its support for enterprise skills, which is below the average score for the WBT economies (Table 16.14).

Table 16.14. Scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	Montenegro	WBT average
Dimension 8a: Enterprise skills	Planning and design	3.17	3.38
	Implementation	2.00	2.83
	Monitoring and evaluation	2.00	2.29
	Weighted average	2.35	2.87
Montenegro's overall score for Dimension 8a		**2.35**	**2.87**

State of play and key developments

Montenegro is putting more emphasis on non-financial support for SMEs, including training and mentoring. This is reflected in several national strategic documents, the MSME Strategy for 2018-2022 and the Economic Reform Programme 2018-2020. To make Montenegrin businesses more competitive in the domestic and international market, and to create new, innovative enterprises, more efforts are needed to build the capacity of SME managers and employees. The newly developed MSME Strategy is a good step in this direction. It covers several measures to develop entrepreneurs' knowledge, skills and competences. The challenge Montenegro will face is addressing skills needs under the upcoming Smart Specialisation Strategy,[8] which will require flexibility in education and training provision with actions that target in particular the micro and small SMEs in the smart specialisation priority areas.

Montenegro has a wide range of support services including training for SMEs, but there is little co-ordination among the institutions that provide them. The Montenegrin Employment Agency targets the unemployed, potential entrepreneurs and start-ups. There are two types of training, and they are a precondition for getting credit support: 1) training to enhance self-employment, such as experience exchanges between participants, introducing an entrepreneurial way of thinking, motivation for business creation, how to start a business; and 2) basic entrepreneurship training, such as how to register a business, how to develop a business plan, basics of business management and accounting. The employment agencies in all municipalities also organise advanced business and management training for entrepreneurs who apply for small loans.

The Ministry of Economy provides support to SMEs through its Investment and Development Fund, which includes training, coaching and mentoring for new and existing businesses. For example, about 80 applicants attended training modules in 2015/16, organised by the Ministry of Economy. Of these, 16 received financial support from the fund to start a new business. The Chamber of Economy and the Montenegrin Employment Federation are doing their part to develop SMEs' skills and competences to keep up with the EU's high international standards and regulations. Good efforts are also being made to train start-ups and support potential entrepreneurs in developing their businesses plans through existing business incubators (e.g. Innovation and Entrepreneurship Center Tehnopolis) and specific start-up programmes. See also Section on support services for SMEs for more information on financial and non-financial support.

The training delivered through various public and private institutions is usually open to everybody and not tailored to a specific group, such as youth entrepreneurs, women entrepreneurs or silver entrepreneurs.

Because of the fragmented training on offer for SMEs in Montenegro, it is important that information on training and training providers is made available for entrepreneurs and potential entrepreneurs through a dedicated web-based platform or one-stop shop.

To improve innovation and competitiveness, the government should invest still more in developing SMEs' skills for growth and internationalisation, including developing a green and digital economy. It is therefore important to carry out training needs analyses regularly at national level. This would allow policy makers to introduce new training programmes based on the identified skills gaps and needs of SMEs. Various business support institutions (the Chamber of Economy, the Montenegrin Employers' Federation and employment agencies) collect data on skill needs for SMEs individually, but these datasets are not collected or analysed at system level. To avoid overlaps, the existing employers' survey carried out by the Employment Agency could be a good basis for identifying the specific training needs of small and medium-sized enterprises, as 98% of respondents are SMEs. This would require co-ordination among the various institutions, and a lead institution to drive SME skills intelligence in the economy.

Montenegro is actively taking part in several EU programmes, such as COSME, Horizon 2020, Erasmus for Young Entrepreneurs and the European Enterprise Network. The challenge is to further promote these initiatives and to develop more project proposals with the aim of developing an entrepreneurial culture and building the capacities of SMEs and entrepreneurs. The Ministry of Economy has so far only co-ordinated one Horizon 2020 programme that aimed to enhance SMEs' innovation management capacities in Montenegro. The Erasmus for Young Entrepreneurs programme has had very limited participation.

The way forward for Dimension 8a

Montenegro recognises the importance of improving the skills and competences of entrepreneurs to make them more innovative and competitive. In order to move forward, the government should consider the following:

- **Ensure systematic evaluation of the effectiveness and impact of existing training programmes**. Evaluating non-financial business support services would improve the quality of the existing training and help develop new targeted training programmes so that SME entrepreneurs and employees are more willing to participate.
- **Consider the need for tailored training for start-ups**. When designing new training programmes for start-ups, attention should be given to where entrepreneurs are in their entrepreneurial life-cycle: from the "wannabe" entrepreneurs who need help with their business idea, to the "early-phase" start-ups that need support to make their business sustainable, to the "up-starts" that need a push to scale up their business.
- **Increase the training offer to enhance SMEs' competitiveness.** More training should be made available to develop SMEs' skills for growth and internationalisation, including the necessary skills to reap the benefits of a green and digital economy. The skills development actions foreseen in the new MSME Strategy 2018-2022 are scattered across the Strategy's various objectives. A

consolidated SME skills development action plan that has dedicated resources attached to it would be advisable.

- **Better co-ordinate training needs analyses.** To better match the training, mentoring and coaching on offer with the actual needs of SMEs, data collection about training needs should be better co-ordinated across different business support institutions and analysed at national level.

Innovation policy for SMEs (Dimension 8b)

Montenegro is a mid-level performer on innovation policy in the region, ranking fourth out of the seven WBT economies. The economy has stagnated in this area since the 2016 assessment, slipping from a score of 2.62 to 2.53 in 2019 (see Figure 16.1 and Table 16.15). This stagnation is evident in all sub-dimensions of the innovation policy dimension, except innovation support infrastructure, where Montenegro has made some investments.

Table 16.15. Scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 8b: Innovation policy for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	3.45	**3.46**
		Co-ordination of innovation policy	2.33	2.97
		Implementation of innovation policy	2.57	3.04
		Weighted average	**2.79**	**3.15**
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.00	2.99
		Technology extension services for established SMEs	1.00	1.74
		Weighted average	**2.20**	**2.49**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	3.40	3.76
		Indirect financial support	1.00	1.38
		Weighted average	**2.44**	**2.81**
	Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	2.00	2.52
		Institutional infrastructure for industry-academia co-operation	2.80	2.72
		Intellectual property rights	2.50	3.00
		Weighted average	**2.42**	**2.70**
Montenegro's overall score for Dimension 8b			**2.53**	**2.86**

State of play and key developments

Policy framework for innovation

The policy framework for innovation in Montenegro was set out in 2016 when the First Innovation Strategy and Law on Innovation Activities were adopted. In 2017, the government adopted the 2017-2022 Research Strategy, which includes some elements of innovation policy but in far less detail. The Ministry of Science is in charge of implementing and monitoring progress on the Innovation Strategy, and sends an annual report on implementation to the government for adoption. There are no plans at the moment to separate policy design and implementation through an independent agency. The Ministry of Science acts as co-ordinator and the Scientific Research and Innovation Council brings all actors together regularly.

Government institutional support services for innovative SMEs

Montenegro has two business incubators in Bar and Berane housing about 40 tenants each, but their focus is not on innovative enterprises. In 2016, the Tehnopolis innovation centre was opened in Nikšić. It is meant to be the first of a four-institution network that will act as Montenegro's science and technology park. At the moment it operates as a business incubator with about 20 tenants. The Ministry of Science provides Tehnopolis's operational funds and an additional EUR 1 million was allocated in 2018 to buy specialist equipment. There are no technology extension services in Montenegro.

Government financial support services for innovative SMEs

Several instruments are offered by the Ministry of Science and the Ministry of Economy that could potentially support innovative enterprises. However, the scale of this support was relatively small until 2018, and these instruments are only designed to support the acquisition of some services rather than fully fledged research and development (R&D) or commercialisation activities.

The Ministry of Economy extended its programme of support for innovation in SMEs beyond the processing industry in 2018. It also runs schemes to encourage standardisation to support innovative clusters. In 2018, the ministry offered the following to innovative SMEs:

- a programme to enhance innovation for SMEs, with a budget of EUR 50 000
- a programme to strengthen companies' innovation by complying with international standards, with a budget of EUR 140 000
- a programme to stimulate the development of innovative clusters, with a budget of EUR 150 000.

In 2017, the Ministry of Science ran a pilot programme to support innovation activities with a budget of EUR 200 000. Both businesses and academics could apply, and preference was given to consortia as well as to women and young entrepreneurs. This pilot drew a lot of interest and received 45 applications. However, the selection committee – composed of Ministry of Science, Ministry of Economy and university representatives – assessed the proposals to be low in quality, and eventually only five projects were supported, with a total budget of EUR 60 000.

Montenegro does not have any dedicated fiscal support measures (such as tax incentives) to foster SMEs' innovative activities. Enterprises can only benefit from a VAT and customs duty exemption when purchasing R&D equipment.

SME and research institution collaboration and technology transfer

Innovation vouchers were piloted in Montenegro in 2012, when 12 companies received support, and the Ministry of Economy then ran an almost identical programme for the processing industry in 2015, 2016 and 2017. However, only four companies were supported in this three-year period. This instrument has a decision committee made up of four Ministry of Economy representatives and one Ministry of Science representative. Finding little interest from companies in the processing industry, in 2018 the Ministry of Economy extended the support to all SMEs and raised the maximum amount to EUR 5 000. However, the application procedure is complex and discourages companies from applying. Applicants need to cover the cost of consulting services first, and then apply for 50% reimbursement. Due to strict state aid rules and requirements, they also need to provide positive balance sheets and submit several documents with the application itself.

The Higher Education and Research for Innovation and Competitiveness Project, supported by the World Bank, provided significant co-operative grants in Montenegro – but this project has ended and the funds are no longer available. The Ministry of Science has decided to offer co-operative grants itself and allocated EUR 1 million for a new programme in 2018 which could award individual projects grants of up to EUR 100 000. The call for application is open to legal entities in Montenegro that are listed in the Register of Innovative Organisations, including scientific research institutions, higher education institutions, innovative-entrepreneurial centres and business incubators. Applicants can only apply as a partnership, which must include at least one business entity from Montenegro.

The amount allocated for co-funding an innovation project will be determined depending on the total accepted project budget and on the size of the company or organisation. The maximum amount of funds provided as support may be:

- 70% for micro and small enterprises/organisations with up to 49 employees
- 60% for medium-sized enterprises/organisations with between 50 and 249 employees
- 50% for large enterprises/organisations with over 250 employees.

As mentioned above, infrastructure for business-academia collaboration in Montenegro has improved with the opening of Tehnopolis, and preparations are well under way to establish the second of the four centres in Podgorica. The remaining two centres will be located in Bar and Pljevlja but construction has not yet started.

The way forward for Dimension 8b

It is evident that Montenegro needs to do more to boost enterprises' innovation activities. The following would be key steps to take:

- **Improve co-ordination of innovation policies.** There is no formal body to co-ordinate innovation policy in Montenegro. Such a body should bring private sector actors on board throughout the policy-making process and ensure that all government actors' efforts (primarily the Ministry of Science and the Ministry of Economy) are complementary. Examples from OECD countries can provide valuable guidance for Montenegro (Box 16.8 has one example).
- **Improve the design of instruments and decision-making processes.** The Ministry of Economy operated the same voucher scheme for three years up to 2017, despite the processing industry's almost complete lack of interest in these grants. Extending the scheme's eligibility to all SMEs in 2018 was a positive step towards increasing demand, but the application process is disproportionately complex given the funds on offer. As of November 2018, only 55% of the total allocated funds (EUR 50 000) had been distributed to a total nine SMEs. This clearly indicates the need to improve the design of these innovation instruments.

  In addition, the decision-making bodies for all the existing schemes are primarily made up of Ministry of Science and Ministry of Economy staff, who select which applicants will receive support. For the time being, it is foreseen that only the co-operative grant programme by the Ministry of Science will have a process of evaluation carried out by international experts. Introducing expert and independent decision-making processes for all the programmes would ensure the quality of supported projects and build trust in the instruments themselves among the research and business communities. Introducing monitoring and evaluation for the existing instruments would ensure that they meet their objectives, or are redesigned if they do not.

- **Scale up financial support for innovative SMEs.** Vouchers are good instruments for establishing connections between business and academia and for businesses to acquire small-scale services. However, seed-like support (ranging from EUR 30 000 to 80 000 per project) is needed for a company to actually engage in R&D activities and develop and test a prototype. Considering the costs involved in bring these prototypes to market, more financial support would be needed for innovative SMEs.
- **Further advance business-academia collaboration.** Soft measures such as removing administrative obstacles for professors to work with businesses can go a long way towards achieving this goal. Technology transfer capacities are also needed, and although the University of Montenegro has established a technology transfer office it is not yet staffed so cannot perform this function. The significant efforts the government has made towards establishing the four-node science and technology park need to be regularly monitored and evaluated (as well as financed adequately to operate) to ensure that this effort is not diluted and that the companies supported are actually high-growth enterprises with innovative potential.

Box 16.8. The Israel Innovation Authority

The Israel Innovation Authority’s purpose is to carry out tasks mandated by the Research and Development Law and provide high-quality and effective services for the Israeli innovation ecosystem. The authority is made up of several innovation divisions with a total budget of EUR 0.38 billion per year.

In 2016, the authority distributed grants to 1 115 R&D projects in 650 companies, with an average grant of EUR 0.33 million. The authority’s board, which supervises the authority’s activities and compliance with policy goals, has approved four new support programmes in addition to the existing programmes moved from the Office of the Chief Scientist to the Innovation Authority. These programmes include innovation labs and biotech incubators in the authority’s Start-up Division, coding boot-camps in its Societal Challenges Division, and a programme of multinational R&D centres in biotechnology and medicine in its Growth Division. As a result of the authority’s work, national reports and science, technology and innovation policy documents show a greater focus on biotechnology, nanotechnology and low-tech industries; a growing interest in clean tech sectors; and an ambition to establish and develop an information system in innovation.

Helping innovative companies grow in Israel as “mature companies” is one of the authority’s objectives. A mature company – unlike a start-up, which focuses on the technology development – carries out additional activities, including manufacturing advanced components, R&D, global tech support, product engineering and manufacturing, global operations, accounting, budgeting and logistics. The significant financial influence of these companies is expressed in their ability to employ people with a variety of specialisations at a high salary, which makes nurturing them a key strategic goal of the Innovation Authority. Specifically, the authority encourages this activity via a framework of bank guarantees intended to increase the credit available for growth in hi-tech companies.

Source: IIA (2017[44]), *Israel Innovation Authority Report 2017,* http://economy.gov.il/English/NewsRoom/PressReleases/Documents/2017IsraelInnovationAuthorityReport.pdf.

SMEs in a green economy (Dimension 9)

Montenegro has made substantial progress on this dimension since the last assessment (Figure 16.1) – jumping from a score of 2.1 in 2016 to 2.95 in 2019 (Table 16.16). It is the second-best performer in the WBT region after Turkey but it still has a long way to go to fully implement the related SBA principle (enabling SMEs to turn environmental challenges into opportunities).

Table 16.16. Scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.80	3.81
		Implementation	2.70	2.56
		Monitoring and evaluation	2.50	2.12
		Weighted average	**2.99**	**2.85**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	2.98	2.32
		Implementation	3.41	2.76
		Monitoring and evaluation	1.53	1.72
		Weighted average	**2.91**	**2.42**
Montenegro's overall score for Dimension 9			**2.95**	**2.61**

State of play and key developments

Framework for environmental policies targeting SMEs

During this assessment cycle, Montenegro has especially emphasised the introduction of environmental policies that target SMEs. The newly adopted MSME Strategy 2018-2022 recognises the importance of going green for strengthening SMEs' competitiveness. It includes a set of measures for providing advice and guidance to SMEs, improving their resource efficiency, and backing these up with financial incentives. It also incorporates measures to promote the application of eco-standards and eco-labelling involving educational and promotional workshops for SMEs.

There is a particular focus on energy efficiency, where the Strategy envisages a number of actions. First, it is planned to establish a database of medium-sized entities and classify them by type and level of energy consumption. This will help evaluate potential energy savings and allow the government (Ministry of Economy) to propose concrete energy efficiency measures. To that end, the Ministry of Economy will carry out training for government officials on how to conduct energy audits of SME facilities. In a similar vein, the government will work on raising enterprises' awareness and strengthening their capacities to deal with energy management issues and energy system optimisation. Furthermore, SMEs will be offered financial incentives to encourage energy efficiency activities and enhanced use of renewable energy sources, from both public and EU funds, though it is unclear what type of financial support will be provided. In addition to these measures, the Strategy envisages the introduction of environmental impact criteria to public procurement.

The MSME strategy complements the comprehensive National Strategy for Sustainable Development (NSSD), adopted in July 2016 for the period up to 2030. It defines the green economy as one of its six priority themes, specifically focusing on its potential for creating new markets (through the production of green products and services) and new green jobs. There is a special emphasis on improving product and service quality in terms of environmental impact. It introduces some circular economy elements, although with no concrete activities attached: reusing and recycling products or some of their parts. The NSSD was prepared through a broad consultation process, including SMEs both directly and indirectly via business association representatives participating in the National Council for Sustainable Development. This council, chaired by the President of Montenegro, was established in 2002 as an advisory body to the Government of Montenegro on sustainable development issues.

Incentives and instruments for SME greening

Apart from a few ad-hoc initiatives on phasing out ozone-depleting substances in the air conditioning and refrigerating sector,[9] which are now completed, the greening policies are not yet fully realised. This is partly explained by the fact that the new MSME Strategy was only adopted in July 2018 and that the NSSD has no separate budget allocated for the implementing its action plans. In the case of the latter, each ministry is expected to provide funds from its own budget for the NSSD measures they are responsible for. Biannual reports are planned on NSSD implementation, with the first one expected in 2019.

The gap in public initiatives for SME greening has been partially filled by Montenegro's business associations, which have become increasingly active in supporting SME greening measures. For example, the Montenegro Chamber of Economy has a dedicated committee on energy efficiency that organises quarterly meetings to raise awareness of the benefits of good environmental policies for both business and society. One of its latest initiatives was to promote efficiency in the construction industry through reducing construction waste and improving waste material recycling.

The way forward for Dimension 9

SME greening is certainly gaining momentum in Montenegro. Going forward, the government should focus on taking the following steps:

- **Adopt a whole-of-government approach to create synergies and avoid overlaps between greening initiatives.** While the NSSD is Montenegro's roadmap for sustainability measures, it is crucial to co-ordinate its wide range of activities effectively and make sure they do not overlap with other environmental measures, such as those of the MSME Strategy. For this reason, a whole-of-government approach is needed to ensure an integrated government response to SME greening. That may warrant establishing a formal co-ordination mechanism in which the Ministry of Sustainable Development and Tourism and the Ministry of Economy should have a vital role to play. But given the cross-cutting nature of greening policies, other relevant ministries such as the Ministry of Science should also be active members of this co-ordinating mechanism.
- **Provide catalytic financial support to help SMEs adopt environmentally friendly practices**. While financial incentives are part of the new MSME Strategy, it is not clear what type of incentives will be used or how these will be financed. It is essential for government to make decisions on the type of financial support that will be offered, mobilise the funds accordingly and carefully plan financial schemes to support SMEs. Also, the government could leverage existing

mechanisms to offer financial support for SME greening. For instance, a well-functioning Montenegro Investment and Development Fund which has been providing loans to SMEs and specific target groups (such as women and young entrepreneurs), could provide financial support to those SMEs that are willing to make investments in improving their environmental performance. These loans could be offered at subsidised interest rates.

- **Support the transition to a circular economy by facilitating partnerships between businesses.** Businesses have a central role in the transition towards a more resource-efficient economy by adapting their business models. To help them in their endeavours and achieve the objective set under the NSSD, the government could encourage the creation of business networks to enhance peer-to-peer learning and collaboration on resource exchange – including those of large firms with smaller suppliers. The Turkey Materials Marketplace serves as a good example (Box 16.9). Networks like this increase the overall value for both buyers and sellers, while at the same time increasing their total environmental performance and bringing various benefits to society as a whole.

Box 16.9. Increasing resource efficiency: the Turkey Materials Marketplace

The circular economy concept is about decoupling natural resource extraction and use from economic output, resulting in the more efficient use of resources. The concept is gaining momentum in OECD and EU countries. Turkey has recognised the potential of changing the linear economic model of "take, make, dispose" to a circular one in order to improve its country-wide resource efficiency and increase its material productivity.

The Turkey Materials Marketplace (TMM) project was established by the Turkish Ministry of Environment and Spatial Planning and the Ministry of Science, Industry and Technology, with financial support from the EBRD and the EU.

The TMM is a secure online marketplace platform through which project members are invited to share data on materials used or left over from their operations. With support from the TMM project team, companies work together to identify, evaluate and carry out material reuse opportunities. There are significant economic benefits for buyers in the platform in purchasing industrial by-products, waste or alternative raw materials at moderate prices. Similarly, those selling by-products and production outputs can charge a higher fee than that of traditional recycling or disposal, since the materials will be used by another member of the platform and therefore become an upcycled product. Another benefit is the reduced costs of storage. The overall social benefit is better waste management and environmental performance.

TMM membership is free of charge while the EBRD funds the project. The TMM team provides technical assistance to members; reviews innovative best practices in materials management from around the world and Turkey; explores the potential use of the members' materials across different sectors; and identifies potential synergy opportunities among platform members. Also, in June 2018, the EBRD launched the Circular Vouchers Scheme, which members can apply for. These vouchers are grants to help companies purchase consultancy services to assess the feasibility of material exchanges, and are worth up to EUR 25 000.

This good practice could serve as a model for the rest of the WBT region in improving their waste management and enhancing material flows. The model is also important in the context of the region's EU perspective. The EU's Circular Economy Initiative and the related waste management directives point to a growing emphasis on this topic in the EU and potential projects and funds that could foster the adoption of the circular economy practices in the WBT region.

Sources: Near Zero Waste (2018[45]) *Turkey Materials Marketplace*, http://www.circularchange.com/wp-content/uploads/2017/05/Astrid-Motta-2.pdf; TMM (2018[46]), *Turkey Materials Marketplace website*, http://turkey.materialsmarketplace.org/; OECD (2018[7]), *Competitiveness in South East Europe: A Policy Outlook*, http://dx.doi.org/10.1787/9789264250529-en.

Internationalisation of SMEs (Dimension 10)

On the whole, efforts to promote the internationalisation of SMEs in Montenegro over the assessed period have been below par. Indeed, Montenegro's overall dimension score of 3.08 has fallen below the WBT average score (Table 16.17).

Table 16.17. Scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	5.00	4.86
		Implementation	3.12	4.24
		Monitoring and evaluation	1.57	3.01
		Weighted average	**3.37**	**4.18**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	3.80	3.58
		Implementation	2.43	3.08
		Monitoring and evaluation	3.67	1.76
		Weighted average	**3.09**	**2.97**
	Sub-dimension10. 3: Promoting the use of e-commerce	Planning and design	3.29	3.45
		Implementation	2.00	2.26
		Monitoring and evaluation	1.00	1.36
		Weighted average	**2.19**	**2.44**
Montenegro's overall score for Dimension 10			**3.08**	**3.43**

State of play and key developments

Montenegro's overall trade performance is faring relatively well, with an export-to-GDP ratio of 40%, compared to the 38% average for the WBT economies (World Bank, 2018[1]). From 2014 to 2017 the costs of import and export border compliance remained the same in Montenegro, at USD 306 for imports and USD 158 for exports (World Bank, 2018[47]). These costs are significantly higher than for the rest of the Western Balkan economies.

At the same time, other reports have found Montenegro to be weakly integrated in internationalisation production processes. Local companies have poor export performance or are only focused on the local market and non-tradeable sector (EC, 2018[9]), the production of competitive higher value-added products is limited, and local industry is characterised by marginal participation in global supply chains, as well as a low level of digitalisation (EC, 2018[9]).

Export promotion

Montenegro has measures to support and promote exports in its MSME Strategy 2018-2022*,* adopted in July 2018. The accompanying action plan has export promotion as one of its pillars, and includes activities aimed at reducing trade barriers and simplifying export and import procedures. Likewise, the Industrial Policy Strategy 2016-2020 recognises that trade barriers inhibit companies' output performance and highlights the need to simplify procedures for trade and business to access domestic and international markets. SME representatives are consulted on Montenegro's strategies through working groups, roundtable meetings or by public consultation. Private sector actors have a 30-40 day period once drafts are complete during which they can raise their concerns.

SME partners are identified through the Montenegro Chamber of Economy and other business associations via a sectoral approach.

Until 2016, the Ministry of Economy, via the Directorate for SME Development, was responsible for carrying out export promotion programmes under the previous SME Development Strategy (2011-2015). However, the SME Directorate did not organise export promotion events or provide financial support to exporting SMEs, and relied almost exclusively on the Enterprise Europe Network (EEN) to carry out export promotion activities. Following a larger restructuring process of the Ministry, the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds was set up with the objective of providing SMEs with a one-stop shop for BSS provision. In the future, export promotion activities will continue to be provided through the EEN, co-ordinated by the Ministry of Economy. However, for 2019, the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds has a plan to develop a new programme which will be dedicated to enhancing export promotion for SMEs.

Activities in the action plan of the MSME Strategy 2018-2022 include providing information and educational support on accessing international markets, including creating a database of international trade fairs and holding export information seminars; and providing support for participation in international markets. However, other than these activities, there are no programmes in the plan that would offer concrete support to exporting SMEs in the form of grant schemes or technical assistance.

Montenegro’s Investment and Development Fund has been offering guarantee support to SMEs to facilitate their access to trade finance since 2009, with the participation of commercial banks (IDF Montenegro, 2014[48]). The fund covers the exports of goods and services against non-market risks, and all major banks offer trade finance loans, guarantees and letters of credit (IDF Montenegro, 2014[48]).

Non-loan trade finance products such as guarantees and letters of credit are available to SMEs from most banks in Montenegro. According to the European Investment Bank, guarantees are reasonably well used, but there is little take-up of letters of credit. Bankers argue that the low supply of letters of credit to SMEs is a consequence of low demand and does not reflect financial institutions’ unwillingness to provide these products on reasonable terms. Among the four banks that provided data, the value of outstanding guarantees on behalf of SMEs totalled EUR 28.5 million, which corresponds to 19% of their SME loan portfolio, whereas the total value of outstanding letters of credit was just EUR 55 000 (EIB, 2016[49]).

Integration of SMEs into global value chains

Montenegro’s MSME Strategy 2018-2022 includes provisions for supporting existing clusters and further cluster development, forming vertical clusters in the agriculture and tourism sectors, and linking clusters to scientific research institutions (Ministry of Economy, 2018[26]). Likewise, the Industrial Policy 2016-2020 aims to achieve the economy’s integration into global value chains, with the goal of attaining a higher positioning within value chains and higher export values (Ministry of Economy, 2016[50]). It focuses on improving the modernisation, smart specialisation and connectivity of strategic sectors with an emphasis on improving market access.

The Ministry of Economy has been implementing cluster support programmes in co-operation with international donors. For example, since 2014, the Ministry of

Economy, the UNDP and UNIDO have facilitated cluster development through a joint project, co-funded by the EU (UNIDO, 2015[51]). One of the nine Business Stimulating programmes, which are implemented in co-operation with the UNDP, seeks to foster cluster development by providing co-financing support for investment costs into intangible and tangible assets and operating costs. This programme supported 16 clusters during 2012-16, which received almost EUR 99 500 in support (Ministry of Economy, 2017[52]).

Overall, Montenegro has 37 established clusters registered with the Ministry of Economy, 7 of which are SME-specific. Montenegro seeks to advance its cluster development through programmes by the Ministry of Economy, the Investment and Development Fund and international organisations. The programmes were also supported by the Business Caravan project, which has gained widespread media coverage as part of the government initiative to ensure that SMEs are aware of the support services available to them. The action plan of Montenegro's MSME Strategy aims for 48 clusters to be registered in the Ministry of Economy's database by 2020.

Montenegro is the only WBT economy with a monitoring mechanism for programmes supporting SMEs' integration into global value chains. A monitoring report is made publicly available because of its link with international donors.

Promoting the use of e-commerce

Of the six WBT economies for which data was available, Montenegro had the lowest percentage of individuals who purchased on line in 2018 (12%) lagging behind the EU average of 60% (Eurostat, 2018[15]). Similarly, of the four WBT economies for which data were available, Montenegro had (together with Turkey) the smallest share of SMEs selling on line in 2018 (9%), which was also much lower than the EU's average of 17% (Eurostat, 2018[15]). [10]

The action plan of the MSME Strategy 2018-2022 anticipates the following measures for promoting e-commerce among SMEs, to be rolled out between 2019 and 2022: 1) conducting research on enterprises using e-commerce in their business operations; 2) creating a database of companies using e-commerce; 3) organising educational sessions on e-commerce; and 4) organising support for MSMEs in order to meet the requirements for e-Trustmark standards. Likewise, Montenegro's Information Society Development Strategy 2016-2020 lists strategic indicators for measuring e-commerce adoption. Despite this, programmes to increase SME e-commerce adoption remain altogether absent.

Montenegro has set an ambitious target of achieving 100% broadband coverage by 2020. If realised, this should strongly accelerate the prospect of widespread e-commerce adoption by ensuring the necessary infrastructure to sustain it. However, this initiative lacks an implementation plan (EC, 2018[9]).

According to the 2018 OECD assessment *Competitiveness in South East Europe: A Policy Outlook*, Montenegro's legislative framework on e-commerce does not cover media and information society services, leaving some room for improvement (OECD, 2018[11]). It has been possible to make online payments via PayPal in Montenegro since June 2014, and business-to-consumer sites have grown in the past two years to include online banking, bill payments and consumer products (export.gov, 2018[53]).

The way forward for Dimension 10

In order to further promote SMEs' competitiveness and their access to international markets, Montenegro should aim to pursue the following measures:

- **Increase efforts to support export promotion**. Most of the activities directed at internationalising SMEs focus on providing information rather than tangible support for capacity building. Montenegro could consider a co-financing programme to provide financial assistance to individual SMEs for developing their export strategies and plans, attending international fairs, and developing export capacity. Simpler initiatives could complement the regular planned seminars, such as creating a centralised web portal that covers the benefits and procedures of exporting, linked to its upcoming database on exporters. This would provide a more permanent information resource for SMEs to access. Within this, a formal customer relationship management system could help track export results, assess SME performance and satisfaction, and identify key trends and areas for improvement (OECD, 2018[11]).
- **Support global value chain integration for SMEs in priority sectors**. These priority sectors are outlined in the draft Smart Specialisation Strategy (S3). Montenegro has several strategies that touch on integration in global value chains, from developing clusters in its MSME development Strategy to attaining higher positioning within value chains in its Industrial Strategy. Montenegro should now aim to implement these strategies and action plans, by channelling its limited financial resources to those sectors that are deemed to be most competitive and promising under the upcoming S3 strategy. This should ensure that objectives are harmonised and clearly linked to planned activities and programmes that would translate into measurable impacts.
- **Develop programmes that promote e-commerce** among SMEs according to the MSME development strategy action plan. Montenegro could create a dedicated team within the government to co-ordinate implementation of the digital business pillar of the Information Society Strategy 2020 and the related objectives of the Industrial Policy 2016-2020 (OECD, 2018[11]).

Conclusions

Since 2016, Montenegro's efforts have revolved around strengthening the legal and regulatory framework underpinning the operational environment for SMEs. There is growing recognition of the need to take SMEs' interests into account, and to devise tailored SME support measures. The newly adopted MSME Strategy certainly provides a clear roadmap for implementing the SBA principles. However, compared to the other WBT economies, the number of public initiatives aimed at improving SME competitiveness is still limited at present. Had the MSME Strategy been implemented according to its action plan, we could expect a growing number of them. But timely implementation of the Strategy and achieving the desired outcomes hinge on efficient institutional co-ordination. This will require a strong role and capacity for the Directorate for Investments, Development for SMEs and Management of EU Funds.

Notes

[1] The WBT region refers to the six pre-accession Western Balkan economies (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) and Turkey. Unless otherwise specified, reference to the "region" in this publication implies these seven economies.

[2] Death rate: number of enterprise deaths in the reference period (*t*) divided by the number of enterprises active in *t*. Source: Montenegro Statistical Business Register 2018.

[3] All creditors have one vote.

[4] See http://www.cb-cg.org/index.php?mn1=platni_promet&mn2=prinudna_naplata&mn3=podaci_o_blokiranim_pravnim_licima_i_preduzetnicima (in Montenegrin).

[5] According to the once-only principle, authorities should not ask businesses for information that is already in the possession of another public authority in that country.

[6] See www.euprava.me/eankete.

[7] According to the 2014 EU Public Procurement Directive, 'economic operator' means "any natural or legal person or public entity or group of such persons and/or entities, including any temporary association of undertakings, which offers the execution of works and/or a work, the supply of products or the provision of services on the market" (EU, 2014[66]). The Directive also specifies that economic operators may include "any persons and/or entities which offer the execution of works, the supply of products or the provision of services on the market, irrespective of the legal form under which they have chosen to operate. Thus, firms, branches, subsidiaries, partnerships, cooperative societies, limited companies, universities, public or private, and other forms of entities than natural persons should all fall within the notion of economic operator, whether or not they are 'legal persons' in all circumstances" (EU, 2014[66]).

[8] Smart specialisation originated in the EU as a concept for stimulating innovation-driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services and, ultimately, economic growth. Human capital, knowledge dissemination and transfer, as well as support to entrepreneurship are all key elements in successful implementation of smart specialisation strategies. For more information, please see Chapter 12 on enterprise skills and Box 13.1 in Chapter 13 on innovation policy for SMEs.

[9] The Country Programme for phasing out of Ozone Depleting Substances in Montenegro (CP); the Terminal Phase-out Management Plan for CFCs in Montenegro for the period 2007- 2010 (TPMP); and the HCFC Phase-out Management Plan 2010-2020 (HPMP) are implemented through the combination of investment and non-investment activities mainly in Montenegro's refrigeration and air-conditioning service sectors. The main objective of these national plans and programmes is to enable the Government of Montenegro to phase out ozone-depleting substance consumption especially in the air conditioning and refrigerating sector and to meet the provisions of the Montreal Protocol on ozone depleting substances. The Agency for Nature and Environmental protection (EPA) consulted with the private sector during the process of implementing the HPMP, CP and TPMP. Also, as a part of the TPMP/ HPMP, SMEs in this specific sector were provided with the equipment for good servicing practice, as well as with training on good refrigeration practice. Around 40 service companies were equipped with the necessary equipment. In addition, as part of these programmes, EPA organised awareness-raising meetings and prepared brochures to inform interested companies in the sector about the related regulations, news and changes happening in the sector.

[10] The Eurostat indicator refers to SMEs, excluding in the financial sector, employing between 10 and 249 employees.

References

Babić, J. and N. Branović (2016), *Insolvency/Restructuring in Montenegro*, Schoenherr, Vienna, https://www.schoenherr.eu/publications/publication-detail/insolvency-restructuring-in-montenegro-1/. [27]

Early Warning Europe (2018), *Early Warning Europe website*, http://www.earlywarningeurope.eu/ (accessed on 16 October 2018). [28]

EBRD (2018), *The EBRD in Montenegro*, European Bank for Reconstruction and Development website, https://www.ebrd.com/cs/Satellite?c=Page&cid=1395236557263&d=Mobile&pagename=EBRD%2FPage%2FCountry (accessed on 7 December 2018). [23]

EBRD (2018), *Transition Report 2018-19: Country Assessments*, European Bank for Reconstruction and Development, https://2018.tr-ebrd.com/downloads/ (accessed on 19 November 2018). [5]

EBRD (2017), *Transition Report 2017-18: Country Assessments*, European Bank for Reconstruction and Development, http://2017.tr-ebrd.com/countries/ (accessed on 7 December 2018). [13]

EBRD (2017), *Transition Report 2017-18: Sustaining Growth*, European Bank for Reconstruction and Development, London, https://www.ebrd.com/documents/oce/pdf-transition-report-201718-english.pdf. [54]

EC (2018), "2018 Economic Reform Programmes of Albania, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, Bosnia and Herzegovina and Kosovo*: The Commission's Overview and Country Assessments", *Institutional Paper*, No. 085, European Commission, Luxembourg, http://dx.doi.org/10.2765/67765. [9]

EC (2018), *A Credible Enlargement Perspective for and Enhanced EU Engagement with the Western Balkans*, European Commission, Brussels, https://eeas.europa.eu/regions/western-balkans/39711/credible-enlargement-perspective-and-enhanced-eu-engagement-western-balkans_en (accessed on 29 November 2018). [21]

EC (2018), *Annual Report on European SMEs 2017/2018: SMEs Growing Beyond Borders*, European Commission, Brussels, https://ec.europa.eu/docsroom/documents/32601/attachments/1/translations/en/renditions/native (accessed on 30 November 2018). [25]

EC (2018), "Economic Reform Programme of Montenegro (2018-2020): Commission assessment", *Commission Staff Working Dcoument*, No. SWD(2018) 131 final, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_montenegro.pdf (accessed on 27 September 2018). [3]

EC (2018), "Economic Reform Programme of the Former Yugoslav Republic of Macedonia (2018-2020): Commission assessment", *Commission Staff Working Document*, No. SWD(2018) 134 fiinal, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_the_former_yugoslav_republic_of_macedonia.pdf (accessed on 11 September 2018). [57]

EC (2018), *Economic Reform Programmes: Western Balkans and Turkey*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf. [16]

EC (2018), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 2nd quarter 2018", *Technical Paper*, No. 026, European Economic Commission, Brussels, http://dx.doi.org/10.2765/03408. [58]

EC (2018), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", *Technical Paper*, No. 028, European Commission, Brussels, http://dx.doi.org/10.2765/319761. [4]

EC (2018), "Montenegro 2018 report", *Commission Staff Working Document*, No. SWD(2018) 150 final, European Commission, Strasbourg, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-montenegro-report.pdf (accessed on 7 December 2018). [10]

EC (2018), *Montenegro on its European Path*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near_factograph_montenegro.pdf (accessed on 7 December 2018). [22]

EC (2017), *2017 SBA Fact Sheet: Montenegro*, European Commission, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/montenegro_sba_fs_2017.pdf. [30]

EC (2017), *Annual Report on European SMEs 2016/2017: Focus on Self-Employment*, European Commission, Brussels, https://ec.europa.eu/docsroom/documents/26563/attachments/1/translations/en/renditions/native. [56]

EC (2017), "Economic Reform Programme of Montenegro (2017-2019): Commission assessment", *Commission Staff Working Document*, No. SWD(2017) 145 final, Council of the European Union, Brussels, http://data.consilium.europa.eu/doc/document/ST-8442-2017-INIT/en/pdf. [55]

EIB (2018), *The European Investment Bank in the Western Balkans*, European Investment Bank, London, http://www.eib.org/attachments/country/the_eib_in_the_western_balkans_en.pdf. [14]

EIB (2016), *Kosovo: Assessment of Financing Needs of SMEs in the Western Balkans Countries*, European Investment Bank, Zurich, http://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_kosovo_en.pdf. [59]

EIB (2016), *Montenegro: Assessment of Financing Needs of SMEs in the Western Balkans Countries*, European Investment Bank, Luxembourg City, http://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_montenegro_en.pdf. [49]

ETF (forthcoming), *Skills Mismatch Measurement in the ETF Partner Countries: Montenegro*, European Training Foundation. [67]

EU (2014), *Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC Text with EEA relevance*, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0024 (accessed on 1 March 2019). [66]

Eurostat (2018), *Digital Economy and Society (database)*, European Commission, https://ec.europa.eu/eurostat/web/digital-economy-and-society/data/database (accessed on 26 September 2018). [61]

Eurostat (2018), *European Statistics (database)*, European Commission, https://ec.europa.eu/eurostat/web/national-accounts/data/database. [62]

Eurostat (2018), *Eurostat (database)*, European Commission, https://ec.europa.eu/eurostat/data/database (accessed on 14 September 2018). [15]

Eurostat (2017), *Key Figures on Enlargement Countries: 2017 Edition*, Publications Office of the European Union, Luxembourg, http://dx.doi.org/10.2785/3284. [60]

export.gov (2018), *Montenegro: eCommerce*, export.gov, https://www.export.gov/article?id=Montenegro-ECommerce (accessed on 8 October 2018). [53]

Government of Montenegro (2017), *Information on the Implementation of the Recommendations from the Regulatory Guillotine Action Plan*, Government of Montenegro, Podgorica, http://www.srr.gov.me/ResourceManager/FileDownload.aspx?rid=297377&rType=2&file=47_56_28_12_2017.pdf. [31]

Government of Montenegro (2017), *Report on the Quality of RIA Implementation in Montenegro (January 2016-November 2017)*, Government of Montenegro, Podgorica, http://www.gov.me/ResourceManager/FileDownload.aspx?rId=297376&rType=2. [63]

Government of Montenegro (2016), *Public Administration Reform Strategy in Montenegro 2016-2020*, Government of Montenegro, Podgorica, http://www.mna.gov.me/ResourceManager/FileDownload.aspx?rid=268749&rType=2&file=PUBLIC%20ADMINISTRATION%20REFORM%20STRATEGY%20IN%20MONTENEGRO%202016-2020.pdf. [29]

Government of Montenegro Public Procurement Agency and World Bank (2017), *Guide to Promote the Participation of Small and Medium-Sized Enterprises in the Public Procurement Market in Montenegro*, World Bank Group, Washington D.C., http://documents.worldbank.org/curated/en/936231498841098747/pdf/P162277-06-30-2017-1498841097085.pdf (accessed on 8 February 2019). [41]

IDF Montenegro (2014), *Investment and Development Fund of Montenegro*, Investment and Development Fund of Montenegro, http://www.irfcg.me/en/2014-03-05-12-55-38/2014-03-05-12-56-48 (accessed on 1 October 2018). [48]

IIA (2017), *Israel Innovation Authority Report 2017*, Israel Innovation Authority, Jerusalem, http://economy.gov.il/English/NewsRoom/PressReleases/Documents/2017IsraelInnovationAuthorityReport.pdf. [44]

ILO (2018), *ILOSTAT*, International Labour Organization, Geneva, http://www.ilo.org/ilostat (accessed on 12 September 2018). [2]

ILOSTAT (2018), *Country Profile: Montenegro*, International Labour Organization, Geneva, https://www.ilo.org/ilostat/faces/oracle/webcenter/portalapp/pagehierarchy/Page21.jspx (accessed on 13 September 2018). [64]

IMF (2018), *Montenegro 2018 Article IV Consultation*, International Monetary Fund, Washington, DC. [8]

Lazovic, V. et al. (2015), "Analysis of e-government portal in Montenegro"*, 38th International Convention on Information and Communication Technology, Electronics and Microelectronics (MIPRO)*, IEEE, New York, https://ieeexplore.ieee.org/document/7160504. [36]

Milonjić, M. (2016), *Rhetoric or Reality? E-Government and the Reconceptualization of Service Delivery in Montenegro*, Institut Alternativa, https://dgap.org/sites/default/files/article_downloads/institut_alternativa_egovernment.pdf. [37]

Ministry for Information Society and Telecommunications (2016), *Information Society Development Strategy 2020*, Ministry for Information Society and Telecommunications, Government of Montenegro, Podgorica. [34]

Ministry of Economy (2018), *Strategy for the Development of Micro, Small and Medium-Sized Enterprises in Montenegro 2018-2022*, Ministry of Economy of Montenegro, Government of Montenegro, Pogorica. [26]

Ministry of Economy (2017), *Business Stimulating Programs*, Ministry of Economy, Government of Montenegro, Podgorica, http://www.mek.gov.me/en/ministry/activities/173243/Ministry-of-Economy-of-Montenegro-published-brochure-business-stimulating-programs.html (accessed on 14 January 2019). [52]

Ministry of Economy (2017), *Saopštenje: Preduzeća prepoznaju značaj uvođenja inovativnosti u poslovanje*, Ministry of Economy, Government of Montenegro, Podgorica, http://www.mek.gov.me/vijesti/174375/Saopstenje-Preduzeca-prepoznaju-znacaj-uvodenja-inovativnosti-u-poslovanje.html (accessed on 31 July 2018). [39]

Ministry of Economy (2016), *Industrial Policy of Montenegro to 2020*, Ministry of Economy, Government of Montenegro, Podgorica. [50]

Near Zero Waste (2018), *Turkey Materials Marketplace*, Circular Change website, http://www.circularchange.com/wp-content/uploads/2017/05/Astrid-Motta-2.pdf. [45]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, Competitiveness and Private Sector Development, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264298576-en. [11]

OECD (2017), *Monitoring Report: The Principles of Public Administration: Montenegro*, OECD/SIGMA, http://sigmaweb.org/publications/Monitoring-Report-2017-Montenegro.pdf. [32]

OECD (2016), *PISA 2015 Results (Volume II): Policies and Practices for Successful Schools*, PISA, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264267510-en. [12]

OECD (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/9789264254473-en. [42]

OECD (2015), *Taxation of SMEs in OECD and G20 Countries*, OECD Tax Policy Studies, No. 23, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264243507-en. [38]

Parliament of Montenegro (2016), *Law on Accounting*, Parliament of Montenegro, http://www.poreskauprava.gov.me/ResourceManager/FileDownload.aspx?rid=248374&rType=2&file=Zakon%20o%20racunovodstvu.doc. [24]

RAS (2017), *Create Life: Public Call for the Implementation of Standardised Mentoring Service*, Development Agency of Serbia, http://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-the-implementation-of-standardised-mentoring-service (accessed on 31 August 2018). [40]

TMM (2018), *Turkey Materials Marketplace website*, http://turkey.materialsmarketplace.org/. [46]

Transparency International (2018), *Corruption Perceptions Index 2017*, Transparency International, https://www.transparency.org/news/feature/corruption_perceptions_index_2017 (accessed on 14 September 2018). [17]

UN (2018), *UN E-Government Survey 2018: GEARING E-GOVERNMENT TO SUPPORT TRANSFORMATION*, Uited Nations, https://publicadministration.un.org/egovkb/Portals/egovkb/Documents/un/2018-Survey/E-Government%20Survey%202018_FINAL%20for%20web.pdf. [35]

UNIDO (2015), *Cluster Development in Montenegro*, United Nations Industrial Development Organization, Geneva, https://www.unido.org/sites/default/files/2015-12/Montenegro_Brochure_FINAL2014pdf_0.pdf (accessed on 14 January 2019). [51]

Van den Eynde, K. (forthcoming), "Start-up training: Customising for greater impact"*, Inform Policy Briefing*, No. 24, European Training Foundation. [68]

Vijesti (2017), *Babić: Biznis karavan daje rezultate [Babic: Business Caravan Gives Results]*, Vijesti Online, http://www.vijesti.me/vijesti/babic-biznis-karavan-daje-rezultat. [33]

World Bank (2018), *Data for Bosnia and Herzegovina, Kosovo, Macedonia, FYR, Serbia, Turkey, Montenegro, Albania (dataset)*, World Bank DataBank, https://data.worldbank.org/?locations=BA-XK-MK-RS-TR-ME-AL (accessed on 27 September 2018). [65]

World Bank (2018), *Doing Business 2019: Training for Reform*, World Bank, Washington, DC, http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf. [43]

World Bank (2018), *Doing Business Data (database)*, http://www.doingbusiness.org/en/data (accessed on 7 January 2019). [47]

World Bank (2018), *Doing Business: Business Reforms in Montenegro*, World Bank, Washington, DC, http://www.doingbusiness.org/Reforms/Overview/Economy/montenegro (accessed on 13 September 2018). [19]

World Bank (2018), *Europe and Central Asia: Macro Poverty Outlook*, World Bank, Washington, DC, http://pubdocs.worldbank.org/en/107191492012467509/mpo-eca.pdf (accessed on 14 September 2018). [6]

World Bank (2018), *World Bank Open Data (database)*, https://data.worldbank.org/ (accessed on 19 November 2018). [1]

World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*, World Bank, Washington, DC, http://dx.doi.org/10.1596/978-1-4648-1146-3. [18]

Further reading

EC (2018), *EntreComp: The Entrepreneurship Competence Framework*, European Commission, Brussels, http://publications.jrc.ec.europa.eu/repository/bitstream/JRC101581/lfna27939enn.pdf

EC (2018), *DigComp2.1: The Digital Competence Framework for Citizens*, European Commission, Brussels, http://publications.jrc.ec.europa.eu/repository/bitstream/JRC106281/web-digcomp2.1pdf_(online).pdf

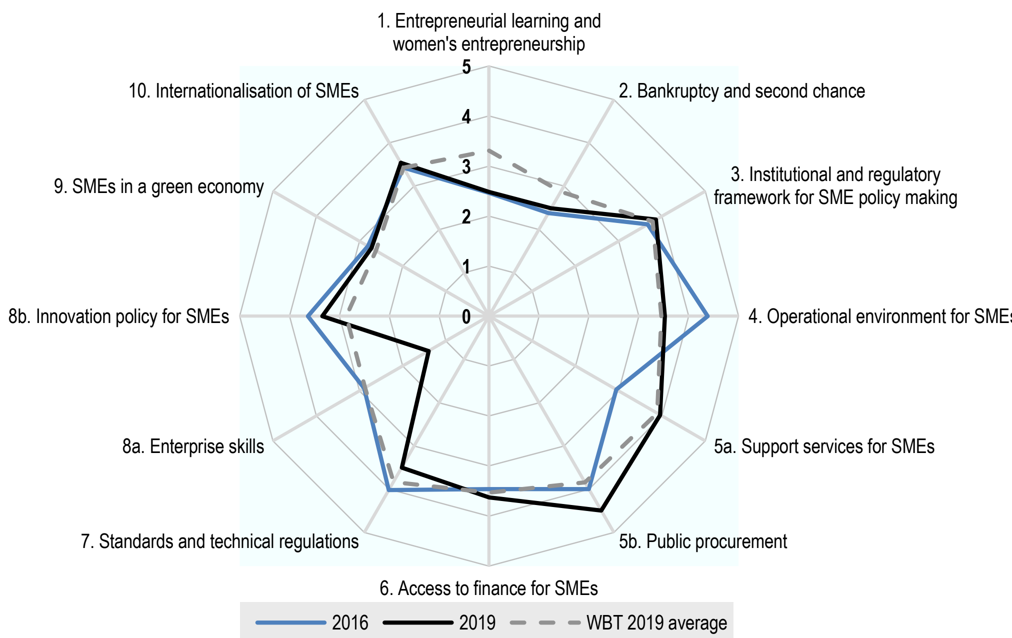
Chapter 17. North Macedonia: Small Business Act profile

This chapter covers in depth the progress made by the Republic of North Macedonia in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of North Macedonia's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 17.1. Small Business Act scores for North Macedonia (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

The Republic of North Macedonia has made moderate progress in implementing the Small Business Act (SBA) since publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 17.1). The economy continues to offer a business environment receptive to SME needs, as well as a wide range of support programmes which are receiving a growing volume of financial resources. The main achievements that have helped the economy improve its performance in this assessment can be summarised as follows:

The new SME strategy has been developed through an inclusive approach. Three years after the previous SME strategy had expired, a new one covering the period to 2023 was adopted in 2018. This comprehensive document includes objectives for each of the ten SBA principles, and the priority areas have been identified based on the last SME Policy Index findings.

A new online portal centralises the information on SME support services. With European Union support, the Ministry of Economy has set up an online portal listing all the active calls for financial and non-financial support for SMEs. This will help to increase the awareness and uptake of programmes among SMEs.

The Fund for Innovation and Technological Development has been scaled up, further boosting the innovation ecosystem. More than EUR 3 million has been allocated to high-growth innovative SMEs since the fund's establishment in 2013.

Additional financial instruments were rolled out in 2018, substantially increasing government support to strengthening innovation infrastructure, such as incubators and accelerators.

Public procurement processes are more streamlined. Changes introduced to the law on public procurement in 2017 led to the abolishment of the Public Procurement Council, removing the need for costly and time-consuming approval procedures in order to participate in tenders. North Macedonia fosters one of the most SME-friendly environments in the region for public procurement.

Resolving insolvency has become faster with the introduction of debt restructuring. Following the amendments to the Bankruptcy Act in 2015, different creditors can actively participate and vote in insolvency proceedings, allowing for debt re-organisation plans. This has helped to reduce the average time to resolve insolvency from 1.8 years in 2016 to 1.5 in 2018.

The Institute of Accreditation has signed bilateral and international agreements, further easing SMEs' access to international markets. By eliminating the need for additional testing, mutual recognition of conformity assessment bodies' results in third countries is likely to lead to the increased acceptance of local SMEs' exports. Technical trade barriers have been lowered, decreasing SMEs' costs and administrative burden when exporting.

Priority areas

Following the standstill in implementing new SME policy measures throughout most of 2016 and early 2017, efforts have visibly intensified for planning policies and harmonising them with the SBA principles. Building on this momentum, this report identifies eight priority areas in which North Macedonia should intensify its activities further:

- **Ensure effective implementation of the SME strategy by establishing a co-ordinating body**. Given its ambitious objectives and broad action areas, the effective implementation of the SME strategy hinges on a strong co-ordination mechanism; however, this has not yet been established. This mechanism should be set up, giving a leading role to the Agency for Promotion of Entrepreneurship.
- **Establish the planned National SME Association to strengthen private engagement in policy making.** The National Entrepreneurship and Competitiveness Council, established in 2012, has now ceased to operate. A new mechanism that incorporates the voices of micro and smaller enterprises in policy making is imperative for applying the "think small principle".
- **Complete the reform of the legal framework for factoring and promote it amongst SMEs as a viable financial instrument**. To encourage the development of factoring services and increase their uptake by SMEs, the reform to increase legal certainty and transparency needs to be finalised. This should be complemented by awareness-raising efforts to promote factoring as an alternative financial instrument alongside bank loans.
- **Streamline company registration and the provision of licences and permits by consolidating the services under one-stop shops.** Although the current 27 "one-stop shops" operated by the Central Registry allow for easy registration of businesses, they do not centralise the application process for various licences and

permits. The registry's mandate needs to be extended so as to further simplify the process and reduce the administrative burden on SMEs.

- **Embark on a review of SMEs' skills gaps and training needs**. To date there has been no comprehensive analysis of skills shortages. Unidentified and unaddressed skills gaps continue to be a binding constraint on SME growth and competitiveness.
- **Conclude the preparation of the Green SME Development Strategy, and provide guidance to SMEs in adopting environmentally sound practices**. The finalisation of the planned strategy would be a first step towards ensuring a whole-of-government approach to SME greening. This should be followed by targeted activities, raising SMEs' awareness of the fact that resource efficiency offers high returns for low-cost investments.
- **Scale-up public support to further encourage linkages between multinational enterprises and SMEs.** Apart from a few donor-funded initiatives, there have been no systematic efforts to help SMEs integrate into European and global value chains. Support programmes, match-making services and targeted advice to SMEs on upgrading their production process need to be developed.
- **Assist SMEs to reap the benefits of e-commerce**. The share of enterprises selling online is just 3%, the lowest in the Western Balkans and Turkey (WBT) region. Despite the relatively solid legal framework, the lack of relevant information and communications technology skills necessitates public intervention to provide targeted support to SMEs.

Economic context and role of SMEs

Economic overview

North Macedonia is a small, upper-middle income economy with a population of 2.08 million and a gross domestic product (GDP) per capita of 15 290 current international dollars in purchasing power parity (PPP) terms in 2017 (World Bank, 2018[1]) – the third highest of the Western Balkan economies. The service sector contributes the most value added to the economy, generating 54.6% of GDP in 2017, followed by industry (24.1%); while agriculture, forestry and fishing accounted for only 7.9% of GDP (World Bank, 2018[1]). However, the agriculture sector did still account for 16.4% of employment in 2017, with most of the active labour force employed in the service sector (53.8%) and industry (29.8%) (ILO, 2018[2]).

Table 17.1 lists the economy's main macroeconomic indicators between 2013 and 2018. Following a solid growth period which saw GDP increase by 3.3% on average between 2013 and 2016, the economy stagnated in 2017. Growth in 2017 suffered from the political uncertainty which prevailed in the first half of that year due to delays in forming a government following the parliamentary election in December 2016 (EC, 2018[3]). This caused public and private investment to drop, thus offsetting increased exports and higher household spending underpinned by higher employment and wages (EC, 2018[3]).

Unemployment continued to decline to 22.4% in 2017 despite stagnant growth (Table 17.1). The largest increases in employment were observed in sectors linked to foreign direct investment (FDI) projects which benefitted from government fiscal support, such as wholesale and retail trade, transport, storage and manufacturing (Vostroknutova and Hernandez, 2018[4]). Although net FDI dropped from 3.6% to 2.3% of GDP between 2016 and 2017 (Table 17.1), the economy continues to benefit from FDI inflows. Since 2012, FDI has increasingly moved away from sectors such as clothing, iron and steel and concentrated on the transport equipment, chemicals and machinery sectors, thus increasing the share of higher value-added products in the economy's export structure (EC, 2018[3]). In 2017, the value of exported goods and services corresponded to 55.1% of GDP, an increase of 12.8 percentage points since 2013 (Table 17.1). No other economy in the Western Balkans and Turkey (WBT) region[1] had a larger share of exports relative to GDP in 2017. However, it is noteworthy that about half of total exports were produced by foreign companies established in North Macedonia, compared to only 16% in 2011 (EC, 2018[3]).

North Macedonia's external debt continued to increase in 2017, reaching 77.1% of GDP, up from 66.1% in 2013 (Table 17.1). Following three years of deflation, inflation – as measured by the consumer price index – picked up again and reached a moderate level of 1.4% in 2017 (Table 17.1). It was mainly fuelled by price pressures in the transport sector, as well as by alcohol and tobacco (EC, 2018[5]).

While the economic outlook is positive, with GDP growth forecast to recover in 2018 (3.1%) and 2019 (3.3%) (EC, 2018[5]), North Macedonia is faced with a number of structural challenges which could pose obstacles to sustained growth in the medium and long term. The main structural challenges are interdependent and pertain to fiscal sustainability, informality and the labour market.

Fiscal sustainability is one of the main risks to sustained long-term growth. As detailed in the OECD publication *Competitiveness in South East Europe: A Policy Outlook 2018* (2018[6]), North Macedonia's tax revenues represented only 16.7% of GDP in 2015, the lowest of the Western Balkan economies, and considerably lower than the OECD average of 34.3% (OECD, 2018[6]). At the same time, its public debt has more than doubled since 2008 (EC, 2018[3]). Furthermore, social security contributions accounted for 35% of the economy's tax mix, compared to 26% in the average OECD economy (OECD, 2018[6]). As these contributions are levied at the same rate regardless of income levels, they prevent the tax system from becoming more progressive. High social security contributions also lead to labour market distortions and further fuel employment in the informal sector (OECD, 2018[6]).

Informal employment accounted for 18.5% of all employment in 2016 in North Macedonia (World Bank/WIIW, 2018[7]) and the informal sector is estimated to account for 17% of GDP (EC, 2018[3]). High levels of informality can have many negative consequences for an economy. Informality reduces the tax base, while informal employees might also receive social benefits, thus increasing the economy's fiscal burden. Similar to other Western Balkan economies, informal employment is most pronounced among young people. In 2016, 34.4% of 15-24 year-olds were employed informally (World Bank/WIIW, 2018[7]). Similarly, in 2017, one-quarter of young people aged 15 to 24 were not in employment, education or training (ILO, 2018[2]).

Table 17.1. North Macedonia: Main macroeconomic indicators (2013-18)

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth[1]	% year-on-year	2.9	3.6	3.8	2.9	0.0	3.1[f]
Inflation[1]	% average	2.8	-0.3	-0.3	-0.3	1.4	1.9[f]
Government balance[1]	% of GDP	-3.8	-4.2	-3.5	-2.7	-2.7	-2.6[f]
Current account balance	% of GDP	-1.6	-0.5	-2.0	-3.1	-1.3	-0.8*
Exchange rate MKD/EUR	Value	61.6	61.6	61.6	61.6	61.6	61.5**
Exports of goods and services[1]	% of GDP	42.3	47.7	48.7	50.0	55.1	56.3*
Imports of goods and services[1]	% of GDP	60.4	64.9	65.0	64.7	68.8	69.6*
Net FDI[1]	% of GDP	2.8	2.3	2.2	3.6	2.3	3.9*
External debt[2,3]	% of GDP	66.1	64.9	68.0	70.7	77.1	..
Gross international reserves[1]	Ratio of 12 months imports of goods moving average	5.6	6.3	5.6	6.0	4.8	5.2*
Unemployment[1]	% of total active population	29.0	28.0	26.1	23.8	22.4	21.9[f]
National GDP[4]	EUR billion	8.6	8.6	9.1	9.7[p]	10.0[e]	..

Note: [e] estimated; [f] forecast; [p] provisional; * average of 1st and 2nd quarter; ** average of 1st, 2nd and 3rd quarter.

Sources: [1] EC (2018[5]), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", http://dx.doi.org/10.2765/319761; [2] (EBRD, 2017[8]), *Transition Report 2017-18: Country Assessments*, http://2017.tr-ebrd.com/countries/; [3] (EBRD, 2018[9]), *Transition Report 2018-19: Country Assessments*, https://2018.tr-ebrd.com/countries/; [4] Eurostat (2018[10]), *Eurostat (database)*, https://ec.europa.eu/eurostat/data/database.

Overall, the quality of education needs to be strengthened at all levels. North Macedonia's results in the 2015 OECD Programme for International Student Assessment (PISA) were well below the EU and OECD averages (OECD, 2018[6]), and nearly one-third of recent graduates are employed in a job unrelated to their field of study (EC, 2018[3]). These figures represent a serious threat to the economy's long-term growth prospects, as they increase skills shortages and mismatches and encourage young people to look for employment opportunities abroad, thus exacerbating the brain drain.

Business environment trends

A regulatory and institutional environment which facilitates doing business is a necessary pre-condition for small and medium-sized enterprises (SMEs) to thrive.

Box 17.1. Economic Reform Programmes

Since 2015, all EU candidate countries and potential candidates are obliged to prepare Economic Reform Programmes (ERPs). ERPs prepare the enlargement countries for their future participation in the EU's economic policy co-ordination procedures. They also play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation.

The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda. The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

1. public finance management
2. energy and transport markets
3. sectoral development
4. business environment and reduction of the informal economy
5. trade-related reform
6. education and skills
7. employment and labour markets
8. social inclusion, poverty reduction and equal opportunities.

The European Commission and the European Central Bank then assess these seven programmes. This forms the basis for a multilateral economic policy dialogue involving the enlargement countries, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include country-specific policy guidance reflecting the most pressing economic reform needs.

The findings of the Small Business Act assessment for the Western Balkans and Turkey provide the analytical background and guidance to the seven EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

Source: EC (2018[11]), *Economic Reform Programmes: Western Balkans and Turkey,* https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf.

As outlined in its Economic Reform Programme 2018-2020 (Ministry of Finance, 2018[12]), despite the significant progress made over the last decade, North Macedonia's business environment still presents some structural impediments to strengthening competitiveness and sustaining growth (see Box 14.1).

The key obstacles included in the document can be summarised as: 1) an unpredictable environment due to frequent changes to the regulatory framework; 2) non-transparent parafiscal charges; 3) an opaque interpretation and uneven enforcement of business regulations, notably by local administrations; and 4) the size of the informal sector and a lack of skilled workers (Ministry of Finance, 2018[12]; EC, 2018[3]). The regulatory framework is frequently changed and lacks systematic and transparent enforcement or commercial dispute settlement (EC, 2018[3]; DFID/FCO, 2018[13]), which can hamper businesses' planning capacity and investment decisions. There are often no clear rationales for the levy of parafiscal charges, with some overlapping of charges between the central and the local level (Ministry of Finance, 2018[12]). Businesses are also subjected to uneven enforcement of business regulations, e.g. inspections whose purpose is often not clear and which can induce fines that are applied in an inconsistent and unfair manner (EC, 2018[3]).

As outlined in Section on Operational environment for SMEs (Dimension 4), the informal sector is considerable, which exposes formal businesses to unfair competition. The lack of an adequately skilled workforce – due to deficiencies in the education system and the persistent brain drain – also hampers businesses' growth potential (EC, 2018[3]). In this area, SMEs have also indicated that the lack of programmes to strengthen their financial literacy and investment readiness is a primary obstacle to their development (Ministry of Finance, 2018[12]). In addition, non-tariff barriers, such as technical standards and administrative procedures, present an obstacle to SMEs' ability to benefit from trade (EC, 2018[3]).

Private sector interviews conducted with SMEs and their representatives for this assessment indicated that corruption continues to hamper SMEs' capacity to do business. Quantitative data from Transparency International supports this finding. Transparency International's 2017 *Corruption Perceptions Index* ranks 180 economies by their perceived levels of public sector corruption according to experts and entrepreneurs, using a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean (Transparency International, 2018[14]). North Macedonia achieved a score of 35, ranking 107th, which shows that perception of public sector corruption has continued to deteriorate since 2014, when the economy achieved a score of 45 (Transparency International, 2018[14]).

According to the World Bank's *Doing Business 2019* assessment, North Macedonia ranked 10th out of 190 economies for overall ease of doing business (World Bank, 2018[15]). The World Bank's assessment also found that it had carried out 42 reforms to improve its business environment between the 2005 and 2019 assessments – the fifth highest number of reforms among all economies in the assessment (World Bank, 2018[16]). Table 17.2 provides an overview of the main developments in the business environment captured by the 2017, 2018 and 2019 *Doing Business* assessments.

Table 17.2. Recent business reforms in North Macedonia

	Reforms making it easier to do business	Reforms making it harder to do business
Doing Business 2019	**Construction permitting process** is less costly thanks to reduced land development fees	None
Doing Business 2018	None	None
Doing Business 2017	**Access to credit** has been strengthened by amending the laws to implement a functional secured transactions system, providing modern features for the collateral registry and allowing parties to grant non-possessory security rights in a single category of assets with general descriptions. **Minority investor protections** have been made stronger by increasing shareholder rights and roles in major corporate decisions, introducing greater requirements for immediate disclosure of related-party transactions to the public, allowing greater access to corporate information during trial and clarifying ownership and control structures. **Resolving insolvency** has become easier by changing voting procedures for reorganisation plans and allowing creditors greater participation in insolvency proceedings.	**Enforcing contracts** has become more difficult by adopting amendments to the Law on Civil Procedure that mandate mediation before filing a claim, thus lengthening the initial phase of judicial proceedings.

Note: Only reforms which had either a positive or a negative impact on conducting business were considered.
Source: World Bank (2019[17]), *Business Reforms in Macedonia, FYR*, www.doingbusiness.org/Reforms/Overview/Economy/macedonia-fyr.

EU accession process

Following the signing of the Cooperation Agreement with the European Community in 1997, North Macedonia was the first Western Balkan economy to sign a Stabilisation and Association Agreement (SAA) with the EU in 2001. The SAA, which entered into force in April 2004, sets the political framework for North Macedonia's EU integration process. The government formally applied for EU membership in March 2004 and was granted candidate status in December 2005. The EU adopted the Accession Partnership for North Macedonia in February 2008, thus updating the previous European Partnership agreement of January 2006.

Since 2009, the European Commission (EC) has recommended opening accession negotiations with North. However, mainly due to the name dispute with Greece, the EU Council did not decide to start membership negotiations until June 2018. In March 2012, the European Commission and North Macedonia launched the High-Level Accession Dialogue to move its political reforms for integration forward. In 2015 and 2016, the EC made its recommendation on progress conditional on implementing the Pržino Agreement[2] and substantial progress in implementing the urgent reform priorities.

In February 2018, the EC injected renewed momentum into the EU accession of the Western Balkan economies with its new strategy for "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans", which details six flagship reform initiatives (EC, 2018[18]). These initiatives include addressing key issues regarding the rule of law, security and migration, increased connectivity and neighbourly relations.

On 17 June 2018, North Macedonia and Greece signed the Prespa Agreement, which notably foresees changing the economy's name from "the Republic of Macedonia" to the "Republic of North Macedonia", thus resolving the name dispute with Greece. The Prespa Agreement was subsequently ratified by the parliaments in Skopje on 20 June 2018 and in Athens on 25 January 2019 most recently. With Greece no longer objecting, the European Council agreed to start accession negotiations with North Macedonia in June 2019 under certain conditions, including public administration reforms; intelligence and security services reform; judicial reforms; and proactive investigations, prosecutions and final convictions in corruption and organised crime cases (Council of the European Union, 2018[19]).

In the meantime, progress reports by the EC have assessed the readiness of the economy to move closer to the EU. The findings and recommendations published in the *SME Policy Index: Western Balkans and Turkey* provide the monitoring and guidance needed for the government to prepare to meet the further requirements related to Chapter 20 in the *acquis* when negotiating its accession to the EU. Chapter 20 aims to strengthen competitiveness, facilitate structural change and encourage a business-friendly environment. Implementation of the ten SBA principles is one of the requirements of this chapter.

According to the latest progress report published in April 2018, North Macedonia is moderately prepared in the area of enterprise and industrial policy (EC, 2018[21]). However, the report notes that it has made no progress since the last report in 2016. The 2018 progress report called on the government to:

- Adopt a new industrial policy and strategies for SMEs, women's entrepreneurship, and tourism and include measures to facilitate SMEs' access to finance.
- Introduce initiatives to increase skills in companies, notably SMEs, enabling them to adopt new methods and technologies.
- Develop measures to link foreign direct investment with local companies.

EU financial support

North Macedonia has received considerable financial support from the EU, which has been its largest provider of financial assistance. Under the Instrument for Pre-Accession Assistance (IPA), North Macedonia received a total of EUR 622 million between 2007 and 2013 (European External Action Service, 2016[22]). Under the second IPA (IPA II), it is scheduled to receive a total of EUR 664.2 million between 2014 and 2020, of which 11% will be allocated to improving economic competitiveness and fostering innovation (EC, 2018[23]). It will also benefit from the regionally focused IPA Multi-beneficiary Programme over the same period.

Funding is also available to support SMEs, including raising capital for start-ups, providing subsidised loans and guarantees, and fostering skills and financial education. These are offered and co-ordinated through the European Investment Fund, the Western Balkans Investment Framework, the European Investment Bank, the European Bank for Reconstruction and Development (EBRD) and the Western Balkans Enterprise Development and Innovation Facility. These give rise to various programmes, such as the Competitiveness of Enterprises for Small and Medium-Sized Enterprises (COSME) programme, InnovFin (Horizon 2020), the Programme for Employment and Social Innovation, the European Structural and Investment Funds and the SME Instrument.

In addition to the EU assistance funds, the European Investment Bank has provided North Macedonia with EUR 649 million in loans since 1999, and another EUR 93.4 million in Western Balkans Investment Framework grants since 2009, leveraging investments estimated at EUR 905 million (EC, 2018[23]).

SMEs in the national economy

Article 470 of the 2004 Law on Trade Companies provides the legal definition of SMEs (Assembly of the Republic of North Macedonia, 2004[24]). It prescribes the criteria for classifying commercial entities as micro, small and medium-sized enterprises. These criteria are aligned with the EU definition as far as the number of employees are concerned, but deviate from it in other criteria (Table 17.3).

Table 17.3. Definition of micro, small and medium-sized enterprises in North Macedonia

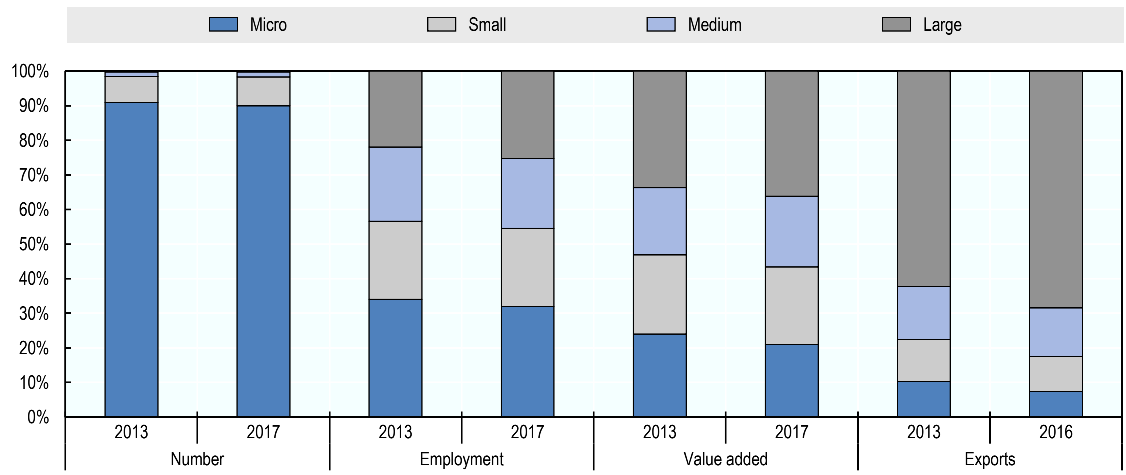
	EU definition	North Macedonia definition
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	< 10 employees ≤ EUR 50 000 gross annual income
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees < EUR 2 000 000 annual income or < EUR 2 000 000 average total assets
Medium-sized	< 250 employees ≤ EUR 50 million turnover ≤ EUR 43 million balance sheet	< 250 employees < EUR 10 million annual income or < EUR 11 million average total assets

Sources: EC (2018[25]), *What is an SME?*, http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en; Assembly of the Republic of North Macedonia (2004[24]), *Law on Trade Companies*, www.economy.gov.mk/Upload/Documents/ZTD%20konsolidiiran.pdf.

As in the EU and the rest of the WBT region, SMEs play a dominant role in the economy's business sector. In 2017, 55 055 out of the 55 203 private businesses, or 99.7%, were SMEs Figure 17.2). The vast majority of these were micro enterprises, with small and medium-sized enterprise making up only 9.7% (Figure 17.2). SMEs also provide much more private sector employment in total than large enterprises. Although their share of employment fell by 3.2 percentage points between 2013 and 2017, they still employed about three-quarters of all employed persons in the business sector in 2017 (Figure 17.2). In comparison, SMEs in the EU only employed 66.4% of all persons employed on average in the non-financial business sector in 2017, the latest year for which data were available (EC, 2018[26]). Micro enterprises in North Macedonia were responsible for providing the most jobs in 2017, employing almost one-third of persons employed in the business sector (Figure 17.2).

SMEs also generate the largest share of value added. In 2017, they generated 63.8% of the business sector's value added (Figure 17.2), while SMEs in the EU only generated 56.8% on average in 2017 (EC, 2018[26]). However, SMEs contributed less to the economy's export performance than larger enterprises. In 2016, they provided 31.2% of total exports, a smaller share than in 2013 when they produced 37.6% of total exports (Figure 17.2).

Figure 17.2. Business demography indicators in North Macedonia (2013 and 2017)

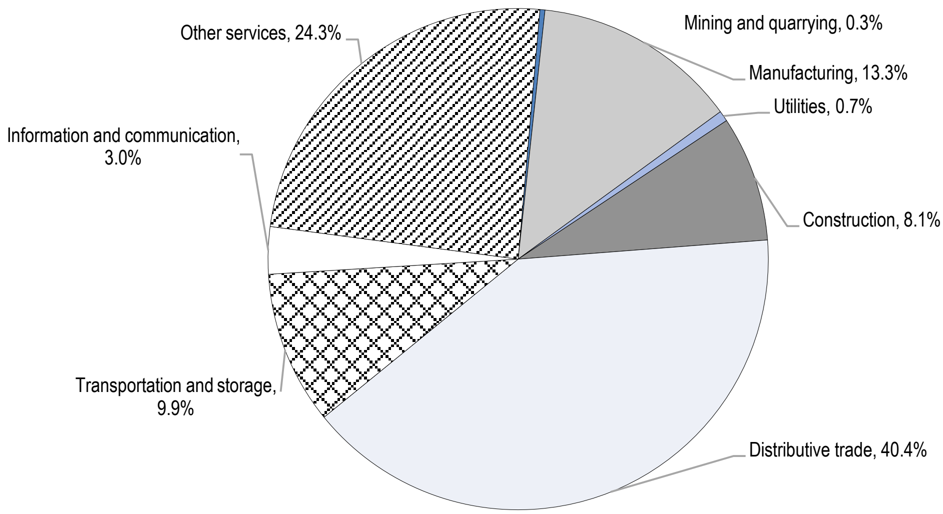


Note: Data for 2017 are provisional.
Source: State Statistical Office of the Republic of North Macedonia.

StatLink http://dx.doi.org/10.1787/888933937888

The largest share of SMEs were operating in the distributive trade sector (40.4%) in 2017 (Figure 17.3). This represents a fall of 3.5 percentage points since 2013, while the manufacturing, construction, and information and communication sectors registered increases of 0.2, 0.8 and 0.5 percentage points respectively. Given the large share of SMEs in distributive trade, it is not surprising that the largest shares of business sector employment (30.3% in 2017) and value added (31.3% in 2017) were also generated in this sector.

Figure 17.3. Sectoral distribution of SMEs in Republic of North Macedonia (2017)



Note: Data for 2017 are provisional. Data for the agriculture, forestry and fishing sector are not available, and thus not reflected in this sectoral distribution. The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Source: State Statistical Office of the Republic of North Macedonia.

Geographically, about 38% of enterprises were located in Skopje in 2017 (Table 17.4). In the other seven regions, the smallest share of enterprises (5.7%) were located in the northeast region.

Table 17.4 Number of registered companies in North Macedonia by enterprise size and region (2013 and 2017)

Region	Year	Enterprise size, by number of persons employed				Total	Share of total number of enterprises
		0-9	10-49	50-249	250+		
Vardar	2013	3 582	245	60	10	3 897	7.18%
	2017	3 547	299	59	12	3 917	7.10%
East	2013	3 785	384	121	17	4 307	7.93%
	2017	3 752	418	130	18	4 318	7.82%
Southwest	2013	5 271	325	48	2	5 646	10.40%
	2017	5 318	340	57	5	5 720	10.36%
Southeast	2013	4 183	390	58	7	4 638	8.54%
	2017	4 116	435	66	10	4 627	8.38%
Pelagonia	2013	5 596	434	70	15	6 115	11.26%
	2017	5 501	453	74	18	6 046	10.95%

Polog	2013	5 558	268	25	3	5 854	10.78%
	2017	6 260	335	36	4	6 635	12.02%
Northeast	2013	2 853	262	48	5	3 168	5.83%
	2017	2 825	258	50	3	3 136	5.68%
Skopje	2013	18 544	1 788	283	65	20 680	38.08%
	2017	18 370	2 034	322	78	20 804	37.69%
North Macedonia	2013	49 372	4 096	713	124	54 305	100%
	2017	49 689	4 572	794	148	55 203	100%

Source: State Statistical Office of North Macedonia.

Assessment and Recommendations

Process

The Small Business Act (SBA) assessment cycle was launched in North Macedonia with a kick-off meeting in Skopje on 10 October 2017. The meeting was organised in co-operation with the Ministry of Economy, which acts as the SBA Co-ordinator, nominated by the European Commission, and which is responsible for implementing the SBA principles.[3]

During the meeting, the new assessment framework (see Annex A for details) was presented to the line ministries and public institutions which were expected to contribute to the information collection process. The two documents making up the assessment framework – the questionnaire and statistical data sheet – were explained in depth to the participants, directing particular attention to the newly added questions and indicators.

Following the launch event, the Ministry of Economy distributed the questionnaire to the appropriate counterparts in the ministries and government agencies, and sent the statistical sheet to the State Statistical Office of North Macedonia (MAKSTAT). From October 2017 to January 2018, the necessary data and documentation were compiled, subsequent to which the questionnaire was completed. In so doing, a score for each policy dimension was assigned, accompanied by a justification. The completed questionnaires and statistical data sheet were sent to the OECD team on 15 January 2018 for review.

The review of the inputs by the OECD and partner institutions revealed the need for additional information on certain elements. This was requested from the Ministry of Economy, who sent back the updated questionnaire on 27 February 2018.

Meanwhile, an independent assessment was also conducted by the OECD and its partner organisations. This was based on inputs from a team of local experts who collected data and information, and conducted interviews with key public and civil society stakeholders, as well as with SME representatives.

Following the completion of the government self-assessment and independent assessment, a reconciliation meeting was organised by the OECD and EBRD in Skopje on 15 May 2018. The meeting aimed to fill any remaining information gaps in the questionnaire, while also serving as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies, and what else can be done across different policy areas to improve SMEs' performance and competitiveness. For the two policy dimensions whose assessment was led by the European Training Foundation (ETF) – entrepreneurial learning and women's entrepreneurship, and enterprise skills – similar meetings took place in Skopje on 27-28 February 2018.

The reconciliation meeting allowed the assessment findings to be consolidated. The OECD and its partner organisations decided on the final scores under each policy dimension presented in this report (more information on how the scores are calculated can be found in in the Policy Framework and Assessment Process chapter and Annex A). The preliminary findings and scores were subsequently presented to SBA Co-ordinators at a meeting in Paris on 14 July 2018. The draft SME Policy Index publications and the SBA Assessment profile of North Macedonia were made available to the Government of North Macedonia for their review and feedback during August-October 2018.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 17.5).

For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

Table 17.5. Description of score levels

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

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

North Macedonia scores 2.82 for entrepreneurial learning and 1.97 for women's entrepreneurship (Table 17.6), which are below the regional average. This is mainly due to its weak monitoring and evaluation performance in both sub-dimensions.

Table 17.6. Scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	3.13	3.73
		Implementation	3.35	3.61
		Monitoring and evaluation	1.00	2.57
		Weighted average	**2.82**	**3.43**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	2.33	3.57
		Implementation	2.14	3.16
		Monitoring and evaluation	1.00	2.37
		Weighted average	**1.97**	**3.12**
North Macedonia's overall score for Dimension 1			**2.48**	**3.31**

State of play and key developments

Entrepreneurial learning

The previous assessment found that North Macedonia had made great policy progress on this sub-dimension by developing a common vision across government, laid out in an entrepreneurial strategy and action plan for 2014-20. Further progress during the current assessment period has been blocked by the lack of a mechanism for the government to work collaboratively towards this shared vision across portfolio and agency boundaries.

An Advisory Group, whose role was to translate the strategy into tangible engagement by all relevant actors, was formally established in November 2013. It included representatives from the Ministry of Education and Science (lead), the Ministry of Economy, the Ministry of Labour and Social Affairs, the Bureau for Development of Education, chambers of commerce, employers' organisations, business support organisations, and education and training providers. In practice however, the group has not met since June 2016. After the change of government in 2017, the Advisory Group's mandate was not renewed. This has left North Macedonia with no supportive architecture for a joined-up approach to designing, delivering or monitoring the government's strategic policy imperatives on developing entrepreneurial skills as a key element to drive innovation, growth and competitiveness.

Education in entrepreneurship is a compulsory subject across all levels of education except higher education, where it is still an elective subject. Entrepreneurship key competences have been successfully incorporated into curricula across all levels through dedicated courses with learning outcomes. For instance, in vocational education and training (VET), the key competences are incorporated into the learning outcomes of an optional course on business education.

At present, teacher training in North Macedonia is not focused on entrepreneurship education. There are no training programmes to develop teachers' entrepreneurial way of thinking, or to help teachers to structure and plan how they deliver the curricula, choose delivery methods, or translate key competences into learning outcomes or assessment methods and tools for entrepreneurial competences.

While courses on entrepreneurship are widely available and students can gain practical entrepreneurial experience, entrepreneurship is not reflected in career guidance. Guidance is focused on providing information about employment opportunities instead of looking to create future opportunities, so entrepreneurship does not feature as a career option, and practical coaching to help students implement a business idea or plan is not readily available.

Women's entrepreneurship

Women's entrepreneurship represents a vast untapped source of innovation, job creation and economic growth in North Macedonia, but to date there is no policy or national mechanism to support it. The Ministry of Economy is still to finalise and publish the Women's Entrepreneurship Strategy 2017-2020.

Non-government organisations (NGOs) are leading collaboration from the bottom up and have clearly positioned themselves as the mechanisms that supports the governance of women's entrepreneurship. The process started under the Instrument for Pre-Accession Assistance (IPA) 2017 together with the YES Foundation, which aims to stimulate entrepreneurship and increase employment levels among young people by strengthening their skills and competences to start their own business. Currently the YES Foundation is in the process of establishing a Council for Women Entrepreneurship, a non-hierarchical network that fosters collaboration among NGOs. However, the council is not linked to any related governance mechanisms, which is necessary in order to address inequities and promote women's entrepreneurship effectively.

The Ministry of Economy has made some modest financial incentives available to strengthen the capacity of business support organisations, NGOs and other associations supporting women's entrepreneurship. In 2017 it allocated a budget of EUR 35 000 to this, receiving 44 applications, of which 16 were funded.

A growing number and variety of actors are engaging to support women entrepreneurs in North Macedonia. However, there is no dedicated portal or one-stop shop to help women entrepreneurs meet some of the main challenges they face, such as finding information on good practice, training, access to finance and networking. However, the YES Foundation project has plans to establish a national portal dedicated to women's entrepreneurship.

The way forward for Dimension 1

The following challenges remain to be tackled to further improve the implementation of entrepreneurial learning and policy performance on women's entrepreneurship:

- **Reactivate the established co-ordination mechanisms.** The challenge North Macedonia faces is to ensure continuity of the co-operation and collaboration mechanisms to support policy and public investment decisions. Reactivating the Advisory Group led by the Ministry of Education and Science to steer the

Entrepreneurial Learning Strategy and Action Plan 2014-2020 would enable the government to work collaboratively towards its own shared vision. It would also serve to integrate entrepreneurial learning into wider national strategies such as the National Strategy for the Development of Education, which is currently under review. The group could also help integrate entrepreneurship education as a horizontal approach and make entrepreneurship key competences a cross-curricular requirement, rather than an optional subject at some levels.

- **Building teachers' capacity to provide competence-oriented education.** In order to create a culture of entrepreneurial thinking, the groundwork for implementing entrepreneurship key competences needs to be laid through systematic teacher training. The government needs to put in place a teacher training system, both pre and in-service, to systematically equip teachers with the same competences and practical skills they will need to transfer to their students. Currently teacher training materials only address entrepreneurship education; new materials need to be developed to ensure that teachers' study programmes include learning outcomes, pedagogy and pedagogical content knowledge at all levels of the education and training system. To address entrepreneurship as a key competence, it is important to include descriptions of learning outcomes based on a key competence approach in teachers' study programmes.
- **Enhance the ability of career guidance professionals to provide entrepreneurship-oriented advice.** Career guidance is more focused on providing information about employment than about self-employment. The professional capacity of guidance professionals will need to be developed so they can take a proactive role in including entrepreneurship in the guidance they provide. Guidance professionals need to be equipped to provide assistance to aspiring entrepreneurs. The Ministry of Education and Science could, in partnership with the Education Development Centre, assess the availability of entrepreneurship-oriented guidance and other business support for novice entrepreneurs and students in vocational and higher education. Guidance professionals also need resources to help provide legal, financial and business advice supporting entrepreneurial activity. Non-formal guidance methods could also work well, such as involving entrepreneurs in the guidance process as role models; as could innovation camps, mini-company approaches, student entrepreneur clubs, and so on.
- **Establish a formal co-operation mechanism for women's entrepreneurship.** The Ministry of Economy, which is leading the drafting of the Strategy for Women's Entrepreneurship 2017-2020, needs to address the need to co-ordinate and collaborate with NGOs promoting women's entrepreneurship. Lack of co-operation means substantial lost opportunities for women-led businesses. Linking the informal Council for Women Entrepreneurship and the (currently inactive) Advisory Group on entrepreneurial learning led by the Ministry of Education and Science would be a key step towards establishing a holistic approach to boosting North Macedonia's growth and competitiveness. It would also serve to establish the monitoring and evaluation of women's entrepreneurship support policies and programmes.

Bankruptcy and second chance for SMEs (Dimension 2)

North Macedonia is one of two WBT economies, alongside Albania, that regressed in this dimension during this assessment period. Its score fell from 3.38 to 2.49 (Figure 17.1) and it is performing slightly below the regional average of 2.87 (Table 17.7).

Table 17.7. Scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**3.00**	**2.39**
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.26	3.71
		Performance, monitoring and evaluation	1.60	2.46
		Weighted average	**2.60**	**3.21**
	Sub-dimension 2.3: Promoting second chance		1.84	**1.93**
North Macedonia's overall score for Dimension 2			**2.49**	**2.87**

State of play and key developments

Preventive measures and bankruptcy procedures

Survival and bankruptcy procedures are regulated by the Bankruptcy Act adopted in March 2006 and amended several times since.[4] The latest amendment, in 2015, introduced changes to the voting rights of different groups of creditors on reorganisation plans. As a result, the average time to resolve insolvency fell from 1.8 years in 2016 to 1.5 in 2018 while the cost remained the same, at 10% of the estate. The recovery rate has increased slightly from 47.7 cents in the dollar in 2016 to 48 cents in 2018.

The Bankruptcy Act provides two options: 1) the adoption of a reorganisation plan for the survival of the debtor; and 2) the liquidation of the debtor. Debtors may also file for insolvency and simultaneously submit a reorganisation plan. Bankruptcy proceedings may be initiated if the debtor has not made any overdue payment in a period of 45 days. The debtor or the creditor can initiate bankruptcy proceedings concerning a legal entity,[5] as well as over the property of the debtor or sole proprietorships. Bankruptcy proceedings may not be implemented concerning a public legal/fund entity or property owned by the state.

The insolvency framework provides options for reorganising the debtor's business at several stages, all providing automatic stay protection from creditors. The legal entity is protected by the Law on Out of Court Settlement, which is a voluntary proceeding. The law grants debtors a 120-day preventive concordat period, during which time creditors cannot enforce their claims, and debtors have time to draft and negotiate a restructuring plan with their creditors. This pre-bankruptcy measure can have one of three outcomes:

- if all the creditors approve the debtor's plan, it leads to an effective new debt settlement
- if creditors holding more than 51% of the total debt approve the debtor's plan, it will allow for a fast-track in-court bankruptcy reorganisation

- if only creditors holding less than 51% of the total debt approve the debtor's plan, it leads straight to a simple in-court liquidation.

SMEs encountering financial difficulties are also protected by the Bankruptcy Act, which provides them with three more options for reorganisation: 1) debtor-initiated bankruptcy reorganisation via a 60-day fast-track procedure; 2) regular creditor-initiated in-court bankruptcy reorganisation; and 3) a reorganisation plan proposed by the bankruptcy administrator with the consent of creditors. However, evidence shows that only two reorganisation cases have been initiated since 2016.

In the case of liquidation, a liquidator is appointed by the Registration Court at the request of the creditors, replacing the former management. The announcement of the company's liquidation cannot be published earlier than 15 days and later than 30 days following the decision on the liquidation plan. This announcement should stipulate the conditions which must be respected by the creditors in order to file their claims and the deadline for depositing those claims.

The legal framework also specifies several aspects of dealing with secured transactions. Secured creditors have a right to a separate settlement outside the bankruptcy proceeding. The judge will grant such a right if the asset is not subject to a reorganisation plan. With the secured creditors' consent, collateral over an asset which is subject to reorganisation may be replaced by other assets from the estate which are not vital for the debtor's reorganisation. In any event, secured creditors have the right to be paid first from the proceeds of the sale of the assets over which they have a secured right (collateral).

When it comes to **preventive** measures, no major progress has been made since the last assessment. North Macedonia's early warning infrastructure remains undeveloped. Only the Central Registry publishes data on bankruptcy cases, allowing financially distressed companies to be identified. However, the system is not updated regularly and does not allow enough time for a customised reorganisation.

The IPA-funded project, "Strengthening the Administrative Capacities for Implementation of the Legal Framework for Bankruptcy and Liquidation of Companies", proposed in 2017 the development of a self-test website to allow the early detection of financially distressed companies in order to help them in a timely manner. However, this has yet to be established.

In addition, no progress has been made in implementing the recommendation of the IPA project on improving the insolvency framework or the Bankruptcy Law, despite the fact that the government has announced that it would be implemented by the end of 2018.

One of the other outcomes of the project was to organise training for entrepreneurs who fear failure. This training was offered in co-ordination with the Ministry of Economy, Economic Chambers, and the Chamber of Bankruptcy Administration. However, active entrepreneurs in financial distress did not attend, which shows that entrepreneurs are reluctant to seek help or advice before financial problems emerge.

Promoting second chance

There is still no monitoring or evaluation of bankruptcy and second chance policies. The government does not provide any support programmes to promote second chance among entrepreneurs who have gone bankrupt. It should also be emphasised that personal bankruptcy does not yet exist in North Macedonia. This means the economy lacks a structural and planned approach for overcoming the cultural stigma associated with failure.

The way forward for Dimension 2

The North Macedonia Government has taken some positive actions to improve its insolvency regime, however, some challenges remain that could be overcome through the following steps:

- **Conduct awareness campaigns among entrepreneurs to promote out-of-court settlements as a less expensive alternative to file for bankruptcy.** As only two reorganisation processes have been initiated under the Bankruptcy Law, and none have been completed, the government should continue to implement the recommendations made under the IPA Project and further promote these measures in order to reduce settlement costs, time and administrative burdens on SMEs. Promotion campaigns may not only reduce the number of bankruptcy procedures, but also reduce the fear of failure among entrepreneurs.
- **Develop a fully fledged early warning system.** SME owners have a tendency to underestimate their financial difficulties and to resist taking action to alleviate their hardships. Therefore, North Macedonia should consider introducing a system which would convince entrepreneurs to initiate recovery measures without delay. Such a system might take different forms, but should entail certain essential features. First, special detection procedures should be devised that would screen and monitor the early signs of SMEs in financial difficulties. Second, these SMEs need to be approached and provided with objective advice on assessing their financial situation, as well as on the various options available to them for recovery. Once they are better informed, SMEs can take the required steps at an earlier stage, thereby increasing their chance of survival. Early warning mechanisms established by EU Member States could offer a blueprint for this approach (Box 17.2).
- **Finish drafting and implement the insolvency framework recommended by the IPA Project**. By widening bankruptcy to include natural persons and establishing effective and efficient debt discharge rules, governments can accelerate the liquidation and debt discharge process. This will lower the administrative burden on courts, and help to reduce the length and the cost of bankruptcy proceedings.
- **Enhance monitoring and evaluation processes of bankruptcy and second chance policies.** The government needs to evaluate better the impact of its current insolvency framework on enterprises, and to use the results of this evaluation for creating a more SME-friendly business environment. This can be achieved by increasing the number of relevant indicators to assess the effective impact of insolvency policies. This task could potentially be assigned to the Central Registry, which is already collecting some quantitative data.
- **Introduce policy measures granting a second chance for honest entrepreneurs.** Currently there are no measures for granting second chances to honest entrepreneurs in North Macedonia. It is strongly recommended that the government expedites the introduction of the debt discharge rules to natural persons, and further develop them as a basis for establishing second chance proceedings.

Box 17.2. Early Warning Europe

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

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

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

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

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

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

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

Source: Early Warning Europe (2018[27]), *Early Warning Europe website*, www.earlywarningeurope.eu/.

Institutional and regulatory framework for SME policy making (Dimension 3)

North Macedonia has slightly improved its performance in this assessment, from 3.67 to 3.86 (see Figure 17.1), which indicates a slow shift towards effective implementation of the SME policies (Table 17.8). More specifically, its improved score stems from positive developments in the institutional framework and public-private consultations.

Table 17.8. Scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.09	4.06
		Implementation	3.73	4.06
		Monitoring and evaluation	3.00	3.92
		Weighted average	**3.69**	**4.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	5.00	4.00
		Implementation	3.40	3.25
		Monitoring and evaluation	4.20	3.23
		Weighted average	**4.04**	**3.47**
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	4.42	3.86
		Private sector involvement in PPCs	4.50	4.26
		Monitoring and evaluation	1.67	2.73
		Weighted average	**3.90**	**3.79**
North Macedonia's overall score for Dimension 3			**3.86**	**3.79**

State of play and key developments

Institutional framework

In April 2018, the government adopted a new SME Strategy (2018-23) and a related action plan, two years after it was developed (in 2016) and three years after the previous one had expired (in 2015). The strategy is well developed, fully aligned with the principles of the SBA Act and mostly follows recommendations from the *2016 SME Policy Index* (OECD, 2016[28]). The three main objectives of the strategy are: 1) creating a conducive business environment in which entrepreneurship and investment is encouraged; 2) supporting SMEs to become highly productive and competitive participants in European and other international markets; and 3) increasing economic competitiveness through enhancing the entrepreneurial and innovative capacities of SMEs (Ministry of Economy, 2018[29]). These objectives are translated into 12 programmes, each of which contains a set of concrete actions, with specified key performance indicators, budget, timeframe and a responsible institution.

The main institution in charge of SME policy design and co-ordination is the Ministry of Economy, via its Department for Entrepreneurship and Competitiveness. However, implementation of SME policies is entrusted to the Agency for the Promotion of Entrepreneurship (APPRM), which is up and running but hampered by a lack of financial resources. The APPRM's budget for 2018 totalled around EUR 64 000, forcing it to rely on donor support to implement its planned SME-related programmes.

The new SME strategy places particular emphasis on monitoring and evaluation. Its key goals include enhanced co-ordination in gathering SME-related data and improved monitoring and evaluation of the strategy. The government plans to improve policy co-ordination by establishing a body to monitor the policies and measures defined in the strategy composed of relevant ministries, state and public institutions, business organisations, and employers' organisations (Ministry of Economy, 2018[29]). However, the strategy does not specify whether this body will be in charge of producing annual monitoring reports or if this task will be entrusted to the Ministry of Economy, as it was before.

When it comes to the informal economy, in March 2018 the government adopted a new strategy, Formalisation of Informal Economy: 2018-2022, to be implemented by the Ministry of Labour and Social Policy. An action plan, covering 2018-20, has been prepared and adopted, and includes a total of 29 measures. A co-ordination body has also been established, responsible for co-ordinating the process of implementation. The ministry, in co-operation with the co-ordination body, will prepare annual reports on the implementation progress. Measures to reduce the informal economy are mostly related to the financial support programmes aimed at formalising informal businesses.

In addition to these measures, North Macedonia has introduced measures to combat the informal economy in its SME strategy, and is the only WBT economy to do so. Its main focus is on raising awareness about the harmful nature of the informal economy. During 2018 and 2019, the government will design and roll out awareness and information campaigns about the benefits of formalisation and make it easier to register a business and obtain the necessary permits and licences (Ministry of Economy, 2018[29]).

Legislative simplification and regulatory impact analysis

As in the previous assessment cycle, North Macedonia remains one of the top performers in this area due to its continuous and comprehensive legislative simplification actions and constant commitment to improving regulatory impact analysis (RIA) processes.

The regulatory guillotine has been applied since 2006; consequent efforts to review and simplify business-related legislation and regulations have resulted in an improved business environment. Government efforts to simplify and streamline the legal and regulatory environment for SMEs are expected to continue with the introduction of the new SME strategy, maintaining and deepening the reform momentum for a better business environment. This will include regular assessments of the impact of new and existing regulations on the business community (Ministry of Economy, 2018[29]).

Regulatory impact analyses are formally required for major regulations in North Macedonia, while the new SME strategy introduces an SME test. RIAs are supported by clear guidelines and are regularly published on line. The institution in charge of RIA is the Ministry for Information Society and Administration, which is a well-functioning and effective body. Nevertheless, the implementation of RIA could be further improved, as specified in the 2017 OECD-conducted monitoring report (OECD, 2017[30]). For example, the RIA forms – which must be signed by the State Secretaries – are sent to the government for adoption even if they are incomplete and lack basic information: they do not properly define the problems, consider or compare the options, identify the impact on the state budget, discuss the implementation aspects, or present the monitoring and evaluation arrangements (OECD, 2017[30]). This mostly happens because the Ministry for Information Society and Administration does not have the formal right to return RIAs to line ministries and require them to improve their justification and analysis of a proposal before it can be sent for adoption by the government (OECD, 2018[6]).

Similar to the other WBT economies, North Macedonia does not conduct appropriate monitoring of the legislative simplification and quality control of RIA processes. It does not regularly collect data on the proportion of legislation that has been reviewed, simplified or removed.

Public-private consultations

North Macedonia has a legal framework in place defining the general principles and procedures for conducting public-private consultations (PPCs). All business-related legislation (both primary and subordinate) is subject to consultation, and some other relevant documents, such as RIA reports or certain strategies, are open for consultations as well. There is also a single government portal, ENER (National Electronic Register of Regulations[6]), which aims to list all the ongoing PPCs in one place.

Despite the formal requirement to conduct PPCs, the quality of the consultation process differs greatly from ministry to ministry, as revealed by the interviews undertaken with SMEs. PPCs are frequently not published on the centralised portal since there is no obligation for line ministries to do so. The Ministry for Information Society and Administration, which is responsible for monitoring the ENER portal, has not done so regularly.

Again despite the formal requirement to conduct PPCs for major regulations, it is common practice for government acts to be adopted through an urgent procedure, i.e. without any consultation. In 2016, 70% of laws in North Macedonia were adopted in this manner, which is the second highest share in the WBT after Turkey, where it was 83% (OECD, 2017[30]; OECD, 2017[31]).

In 2012, the National Entrepreneurship and Competitiveness Council was established as a tripartite body, with representatives from the public and private sectors and civil society, to facilitate consultations with interested parties. However, the council does not seem to meet regularly as its last formal activity was recorded in December 2016.

The government has identified some of these issues as key challenges in creating a conducive business environment in North Macedonia. As a result, one of the main objectives of the new SME Strategy is to create mechanisms to strengthen consultation and dialogue with the private sector. It places special emphasis on enhancing private sector participation in policy development, particularly including female entrepreneurs in consultation processes and ensuring that micro enterprises' voices are heard. To attain this goal, the government plans to introduce a National SME Association to represent the interests of SMEs in government policy making, implementation and evaluation. The association would complement chambers of commerce by focusing on micro and small enterprises. As underlined in the strategy, the National SME Association will assume the role of the National Council for Entrepreneurship and Competitiveness, but it is not clear whether the latter body will cease to exist (Ministry of Economy, 2018[29]).

The way forward for Dimension 3

As underlined above, North Macedonia has established an advanced institutional and regulatory framework for SMEs. In the future, it should focus on the following elements:

- **Ensure effective implementation of the SME Strategy given its wide-ranging and ambitious objectives and measures.** The SME Strategy is a well-developed and comprehensive document, structured around the SBA Act Principles and mostly aligned with the recommendations from the *2016 SME Policy Index*. As such, the strategy introduces a wide range of measures, though these are often broadly defined and not very specific. In addition, a number of institutions are involved in their implementation, with the Ministry of Economy and the APPRM acting as the two central bodies. In order to ensure effective implementation of the planned measures, the government needs to build strong and timely co-ordination among the various stakeholders. The Ministry of Economy will be especially important for this, in particular in maintaining close dialogue with the key actors implementing the strategy. The ministry also needs to ensure that the activities undertaken are regularly monitored and corrective actions implemented in the event of delays.
- **Enhance the quality of the PPC process**. The new SME strategy places particular emphasis on improving the quality of the PPC process through better involvement of the private sector in policy-making processes. However, North Macedonia also needs to address a number of other challenges in this area. First, the quality of the PPC process is not uniform and varies from one institution to another. Second, transparency of PPCs needs to be improved since it is left up to the discretion of each ministry to publish the draft regulations and documents for consultations on the single governmental e-portal. Third, PPC is very commonly bypassed through an urgent adoption procedure. To overcome these issues and increase compliance with the PPC requirements, the Ministry of Information Society and Administration needs to act as a central co-ordination unit, overseeing the proper use of the government portal for consultations and acting as a quality check and control mechanism.

Operational environment for SMEs (Dimension 4)

North Macedonia is one of three economies in the WBT region – along with Albania and Montenegro – that regressed during the assessment period on this dimension (see Figure 17.1). Its score fell from 4.38 to 3.52 (Table 17.9), mainly as a result of the absence of monitoring and evaluation mechanisms for digital services.

Table 17.9. Scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for enterprises	Planning and design	4.39	4.07
		Implementation	3.63	3.47
		Monitoring and evaluation	1.00	2.05
		Weighted average	**3.20**	**3.29**
	Sub-dimension 4.2: Company registration	Design and implementation	4.67	4.48
		Performance	3.83	3.72
		Monitoring and evaluation	5.00	3.59
		Weighted average	**4.63**	**3.97**
	Sub-dimension 4.3: Business licensing	Licence procedures	3.25	3.67
		Monitoring and streamlining of licence system	3.51	3.18
		Weighted average	**3.38**	**3.43**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME specific tax measures		
North Macedonia's overall score for Dimension 4			**3.52**	**3.45**

Note: A new sub-dimension 4.4 on tax compliance procedures for SMEs was added at the request of the assessed economies, to better reflect the complexity of the overall picture of the operational environment for SMEs, however, as it is a pilot analysis this sub-dimension has not been included in the scoring.

State of play and key developments

Digital government services for enterprises

The Ministry of Information Society and Administration (MIOA), established in 2011, is the institution responsible for e-government services. North Macedonia offers a broad range of digital services (over 180), but not all of them are available at a single location. Different institutions host their respective e-services on their own web portals (see Table 17.10).

Nevertheless, two main web portals allow access to information for the business community and for citizens. One is hosted on the MIOA website (www.uslugi.gov.mk) and the other is hosted by the Ministry of Economy (www.konkurentnost.mk); each portal provides access to various e-services.

The MIOA's portal has been established as the information portal to government services, providing direct links to almost all the ministries' services, application forms, published information and other material. The portal enables citizens and businesses to: 1) reduce the time required to find information about government services; 2) gain quick and easy access to information about changes in government services; 3) distribute information services quickly; 4) link to government institutions; and 5) establish procedures for the simple modification of existing services and introducing new ones.

In order to enhance digital services, in February 2018 the government adopted the Public Administration Reform Strategy for 2018-22. One of its main objectives is the "delivery of services in a fast, simple and easily accessible way". In this context, the government is working on establishing a National Portal for e-Services. This new national portal will offer faster and simpler services by creating a single contact point and a single sign-on in order to accelerate the e-services delivery process. The portal is expected to be up and running by the end of 2018.

Table 17.10. An overview of e-services hosted by different institutions in North Macedonia

Service name	Description	Responsible institutions	Address
e-Employment	Portal for checking personal employment history data.	Employment Service Agency	www.avrm.gov.mk/home.nspx
e-Cadastre	Portal with geospatial data and status of services.	Agency for Real Estate Cadastre	www.katastar.gov.mk/en/home
e-Health	Portal for health insurance services for citizens, as well as for medical institutions and businesses (pharmacist and general practitioner doctors).	The Health Insurance Fund	www.fzo.org.mk
e-Pension	The service provides information, some forms to download and a call centre	Pension and Disability Insurance Fund, Ministry of Labour and Social Policy	http://www.piom.com.mk/
e-Building permits	Portal for e-Building permits, all available and on municipalities' sites.	Ministry of Transport and Communications	www.gradezna-dozvola.mk/
Exim (e-Customs)	One-stop shop portal for licences for import-export and transit of goods.	Customs Administration	www.exim.gov.mk
e-Tax	The e-Tax service provides online submission and returns facilities for companies, using authentication by digital signatures.	Public Revenue Office, Ministry of Finance	http://etax.ujp.gov.mk/
e-Procurement	Portal that enables the whole process of electronic trading between contracting authorities in the Republic of Macedonia and domestic and foreign economic operators (suppliers).	Public Procurement Bureau	www.e-nabavki.gov.mk/
e-Government	Upgraded portal for government e-sessions used by all ministries and a large number of state bodies. The portal allows the preparation of materials, their submission, and collaborative functionalities.	Government of North Macedonia	www.sts.e-vlada.mk

Source: Adapted from EC (2018[32]), *eGovernment in the Former Yugoslav Republic of Macedonia*, https://joinup.ec.europa.eu/sites/default/files/inline-files/eGovernment_in_North Macedonia_2018_0.pdf.

Digital signatures are available for all existing services. The Data in Electronic Form and Electronic Signature Law states that "the generally accepted electronic signature with an authorised certificate related to the electronic data is equal to the personal signature, and therefore shall be of equally valid evidence with the personal signature which is related to paper documents". However, legislation has made an unclear limitation to this rule.

According to the Data in Electronic Form and Electronic Signature Law, "the electronic signature shall not be valid when a personal signature is required in writing before a public notary or a court"; however, the law does not provide any clear instruction on which situations require a "personal signature in writing".

At the beginning of 2016, North Macedonia launched an updated version of its data portal as well as the Third Action Plan for Open Government Partnership 2016-18 in co-ordination with MIOA. This action plan focuses on six thematic areas: 1) participatory policy making; 2) open data; 3) public access to information; 4) reducing corruption and promoting the rule of law; 5) efficient management of public resources; and 6) local level openness. The new version of the portal offers 154 datasets (109 active and others in the planning process) and links to information from 27 institutions.

By the end of 2015, the Interoperability Framework was finalised and started operating. The portal[7] is aligned with the European Interoperability Framework. It promotes and supports the delivery of public services. It also fosters cross-border, cross-administration interoperability and guides the public administration in its work to provide public services to businesses and citizens (EC, 2018[32])

North Macedonia has not yet developed any tools to monitor and evaluate the digital services available to SMEs.

Business registration and licensing

Entrepreneurs are able to register their companies at a single window through one of the 27 one-stop shops operating under the Central Register of the Republic of North Macedonia. Its online platform provides registration templates for each form of business.

Company registration and identification numbers are used in dealing with the public administration so businesses can use their registration number when accessing financial and tax services.

The Central Register is also responsible for monitoring and evaluating business registration. It produces quarterly reports and analyses the number of newly established companies. Based on the results, it has simplified procedures, resulting in easier and less costly registration. The number of procedures, four, remains the same since 2016. North Macedonia is still the least costly economy in the WBT in which to start a business, costing 0.9% of income per capita. However, since the previous assessment, the number of days it takes to start a business has doubled from 7 to 14 days. Thus, since the previous assessment it has slipped 19 places in the World Bank *Doing Business* ranking for starting a business, and is currently ranked 22 out of 190 economies (World Bank, 2018[15])

In North Macedonia, each ministry is in charge of issuing licences according to their competences, and each regulates its own procedures. There is no single portal providing information about the licences needed or requirements to be met. However, the government is currently working on an e-licence portal with the aim of having all information and applications for entrepreneurs on line, as well as creating a single-entry point for licences and permits. It is expected to be operational in 2020. The portal should be a first step towards introducing a digital distribution system to the officials responsible for assigning licences – and hence towards greater transparency in the process.

Tax compliance procedures for SMEs

North Macedonia offers simplified tax compliance procedures for SMEs. All taxpayers whose total annual turnover does not exceed MKD 1 million (Macedonian denars, approximately EUR 16 300) do not have to register for value-added tax (VAT), although SMEs in this category may voluntarily register for VAT purposes at the beginning of each calendar year. The standard rate of VAT is 18%, but a lower rate of 5% applies to specific goods and services, such as food for human consumption, livestock fodder, drinking water from public supply systems, computers and software, agricultural material and equipment, pharmaceuticals and medical equipment, publications and accommodation services.

For corporate income tax, an incorporated business[8] with an annual income of between MKD 3 million (around EUR 48 800) and MKD 6 million (around EUR 97 600), will pay 1% corporate income tax instead of the standard rate of 10%. Companies with an annual corporate income of below MKD 3 million are exempt from corporate income tax.

As for other incentives, if an enterprise is registered in a technological industrial development zone, it is exempt from corporate income tax, irrespective of its income, for a period of ten years from commencing activities in the zone. Moreover, the employees of these enterprises are also exempt from paying personal income tax for ten years.

The way forward for Dimension 4

To further develop the operational environment of SMEs, the government needs to take the following steps:

- **Continue to centralise and expand digital services, allowing SMEs to complete all processes on line.** Centralisation will help give the government an overview of all available e-services and improve their efficiency. This will save time and reduce both the cost and the number of required procedures. The government also needs to amend the law to clarify the restrictions on the use of electronic signatures. This will give SMEs clearer information about the use of e-signatures and could save them time in their interactions with the administration.
- **Increase efforts to improve the monitoring and evaluation of digital services.** Proper monitoring and evaluation leads to well-informed, evidence-based policy making, increases transparency and reduces corruption in government actions. Currently there are no tools designed to monitor and evaluate the digital services available to SMEs. North Macedonia needs to incorporate monitoring and evaluation as an integral part of the policy-making process.
- **Continue efforts to centralise company registration and licensing under one-stop shops.** Single co-ordinating bodies (one-stop shops) can increase transparency, speed up processes, help to conduct effective monitoring and streamlining, and lower administrative burdens and costs for SMEs. The government is attempting to improve its existing one-stop shops to act as a single body, centralising procedures into one administrative system.
- **Regularly monitor and evaluate tax simplification measures.** Complying with the eligibility criteria of simplified tax schemes in the region is not always as simple for businesses as intended. Excessive documentation requirements coupled with the limited availability of online options to complete the procedures may

deter entrepreneurs and SMEs from making use of these schemes. WBT governments should therefore evaluate how to make it easier for SMEs to join the tax simplification schemes, while maintaining sufficient safeguards that prevent abuse and result in low tax compliance.

Support services for SMEs (Dimension 5a)

Since the *2016 SME Policy Index* assessment, North Macedonia has improved its performance in this dimension (see Figure 17.1), increasing its overall score from 2.94 to 3.96, and slightly outperforming the WBT average of 3.89 (Table 17.11). Its progress reflects improvements made in both sub-dimensions.

Table 17.11. Scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 5a: Business support services for SMEs	Sub-dimension 5a.1: Business support services provided by the government	Planning and design	3.22	3.84
		Implementation	3.95	3.68
		Monitoring and evaluation	2.92	3.19
		Weighted average	**3.52**	**3.63**
	Sub-dimension 5a.2: Government initiatives to stimulate private business support services	Planning and design	3.86	4.67
		Implementation	4.86	3.85
		Monitoring and evaluation	4.00	4.07
		Weighted average	**4.39**	**4.14**
North Macedonia's overall score for Dimension 5a			**3.96**	**3.89**

State of play and key developments

Since the *2016 SME Policy Index* assessment, the government has adopted two new strategy documents which frame its business support service (BSS) provision to SMEs.

In 2016, it adopted the Competitiveness Strategy 2016-2020, which is accompanied by an action plan up to 2020 that includes monitoring indicators (e.g. number of training courses provided), but no measurable targets. The strategy includes a brief qualitative recap on BSS supply, which is used to identify priority actions. Notable measures included in the action plan include a skills fund to encourage SMEs to invest in their employees' skills and a programme of management training in foreign companies.

Following the expiry of the previous five-year national SME Strategy in 2013, North Macedonia eventually adopted the National Small and Medium Enterprise Strategy 2018-2023. The preparation of the strategy was supported by the International Labour Organization, which conducted a national SME survey in 2018. It also benefitted from a report by the State Audit Office, which included recommendations for BSS provision. The strategy's action plan (still a draft at the time of writing) includes ten measures aimed at improving BSS provision. Each measure is associated with an implementation timeline, budget allocations and output indicators, but no measurable targets. Actions range from introducing an evaluation and performance measurement framework for SME development, to assessing the feasibility of a national BSS accreditation framework, and establishing an online feedback mechanism for the clients of all BSSs.

Several government institutions provide BSSs in North Macedonia, in addition to international donor organisations and international financial institutions. The APPRM is the dedicated public institution in charge of BSS provision to SMEs, while seven Regional Entrepreneurship Centres also deliver programmes. The Ministry of Economy and the Employment Service Agency also provides a number of BSSs. These are discussed in more detail below.

On its webpage, the APPRM provides general information to SMEs, e.g. on drafting a business plan or on certification and standards. Under the Programme for Entrepreneurship, Competitiveness and Innovation, the APPRM also offers a variety of BSSs to SMEs, ranging from directly delivered services through the Regional Entrepreneurship Centres to co-financing schemes for the use of private sector consultants. The APPRM's budget for all BSSs under the Programme for Entrepreneurship, Competitiveness and Innovation was MKD 3.9 million (approximately EUR 63 500) in 2018, the same as in 2017. Under this programme it organised several training sessions for SMEs and potential entrepreneurs on a variety of topics (e.g. business plan development and women in entrepreneurship) in 2017. For example, it organised ten one-day workshops for SMEs which focused on investment readiness and innovation. It also organised ten one-day training sessions for high school and university students on management practices and business plan preparation. In addition, the APPRM organised three workshops aimed at bringing together start-ups and experienced entrepreneurs to learn from the latter's experiences.

One important development during this assessment period which will improve BSS provision has been North Macedonia's participation in the second phase of the Establishment and Promotion of Mentoring Service for SMEs in the Western Balkans Project. This project, which is being implemented in co-operation with the Japan International Cooperation Agency (JICA), seeks to enhance the mentoring system provided through SME and development agencies in Bosnia and Herzegovina, North Macedonia, Montenegro and Serbia. In 2018, the APPRM published on its website the first call for interest in this free-of-charge mentoring programme. The support follows the business support methodology developed by Serbia's former National Agency for Regional Development in co-operation with JICA, and proposes the same programme activities. In Serbia, where the programme was standardised in 2008, it has achieved very positive results (see Box 17.3).

Box 17.3 The Development Agency of Serbia's standardised mentoring service

Background

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

Programme activities

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

The programme allocates an expert mentor to spend a certain number of hours (from 25 to 50 hours per beneficiary) at the beneficiary's premises. The mentor and the SME's director jointly conduct a diagnosis to understand the business's operations, the reasons for any current problems or obstacles to further development, and the areas with the growth potential. Based on the factors identified, the mentor and the beneficiary then prepare a plan/development project. The business support plan could potentially relate to any functional area of the enterprise, including organisational structure, human resources management, financial management, logistics and distribution, production-technological processes, intellectual property and quality systems. Depending on their needs, the mentor could also refer the SME to more specialised consulting services.

Impact

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

Results and feedback from SMEs (up to 2015)

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

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

The programme also contributed to raising awareness among Serbian SMEs about the importance and benefits of expert advisory support and non-financial business support schemes.

Success factors

While the programme faced a number of challenges during its planning and implementation phase, caused by bureaucracy and systemic public sector delays, it nonetheless achieved all its objectives. Furthermore, its results were so positive that they led to the mentoring programme being institutionalised in 2011 as a standard service for SMEs in Serbia, delivered by the RAS with support from JICA.

Source: RAS (2017[33]), *Create Life: Public Call for the Implementation of Standardised Mentoring Service*, http://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-the-implementation-of-standardised-mentoring-service; information collected from RAS over the course of this assessment.

In terms of co-financing schemes, the APPRM continues to offer vouchers for consulting services to SMEs and potential entrepreneurs. In 2018, it allocated MKD 900 000 (approximately EUR 14 700) to this voucher scheme from its budget under the Programme for Entrepreneurship, Competitiveness and Innovation. The voucher scheme entitles existing SMEs to benefit from co-financing of 50% of consulting costs, with an upper support limit of MKD 45 000 (EUR 732), rising to MKD 90 000 (EUR 1 464) for SMEs with innovative projects, i.e. with the potential to develop new products, services or processes. Potential entrepreneurs (unemployed persons or those who have been self-employed for up to six months) are entitled to vouchers covering 100% of consulting costs with an upper support limit of MKD 31 500 (EUR 513). In 2017, 17 SMEs and 14 potential entrepreneurs benefitted from this voucher scheme.

The APPRM restricts the use of private sector consultants under its co-financing schemes (such as consulting vouchers) to consultants it has chosen and who are committed to the programme's code of ethics. Its catalogue of consultants lists those who are eligible. The catalogue is available on the APPRM's website, which provides an interface to find consultants according to their location and field of expertise (e.g. management, information technology and management information systems, marketing and export development, and human resources). At the time of writing, the catalogue listed 633 consultants.

The Ministry of Economy and the Employment Service Agency also provide a number of BSSs. In 2018 the Ministry of Economy offered a number of co-financing schemes under the Programme for Entrepreneurship, Competitiveness and Innovation, e.g. for costs related to certification, employee training or the purchase of equipment. Similarly, the Programme for Self-Employment – which has been implemented by the Employment Service Agency, the Ministry of Labour and Social Politics, APPRM and the United Nations Development Programme (UNDP) since 2007 – provides training to potential entrepreneurs. It also issues vouchers for the use of private sector consultants (if they are included in the APPRM's catalogue), as well as grants of up to EUR 3 000 for the purchase of equipment to start a business.

Unlike most WBT economies, North Macedonia has a single web portal (www.konkurentnost.mk) which provides information on relevant legislation and studies, and centralises information on the BSSs (financial and non-financial) offered by different public institutions and international donors. It was established in 2018 with the support of the EU.

The APPRM monitors the implementation of its BSSs and publishes annual monitoring reports which are publicly accessible on its webpage. Among other things, the monitoring reports indicate the number of beneficiaries for each BSS and their location.

According to data gathered from the monitoring reports, SMEs' uptake of BSS has been relatively low – only 1.7% of all SMEs in North Macedonia used one of the APPRM's BSSs in 2017. In comparison, 18.6% of SMEs in Turkey used a publicly (co-)funded BSS in 2017, and 3.6% did so in the other five Western Balkan economies on average.

The way forward for Dimension 5a

Despite North Macedonia's improvement in the provision of business support services, challenges remain which could be addressed through the following actions:

- **Conduct regular training needs analyses (TNAs)** to better adapt BSSs to SMEs' actual skills needs. During the current assessment period, North

Macedonia has not conducted a training needs analysis. Regular TNAs would help to fill the gaps in BSS provision, better target the support provided and create more effective BSS provision systems. In particular, they would contribute to tailoring the BSSs on offer to the characteristics of micro and SME beneficiaries, the sectors they belong to, and their stage of development, as well as their actual experience in the market.

- **Introduce an evaluation and performance measurement framework and formal feedback mechanisms for programme beneficiaries.** While the APPRM monitors its BSS, it does not use any performance indicators to measure their actual impact. The national SME Strategy 2018-2023 envisages the introduction of a thorough evaluation and performance measurement framework, as well as feedback mechanisms, to measure the actual impact of BSSs on SMEs' performance, and adapt the services on offer accordingly. In the meantime, North Macedonia could consider inviting an independent institution to conduct an in-depth evaluation of its current BSS provision.
- **Avoid duplication of BSSs and develop a sustainable market of private BSS providers**. Several government institutions, international donor organisations and international financial institutions (IFIs) offer BSSs to SMEs and potential entrepreneurs. In some cases, as with the Programme for Self-Employment and the APPRM's consulting voucher, the services partly overlap. In addition, financing 100% of potential entrepreneurs' consulting costs under the APPRM's voucher scheme might inhibit the local BSS market from developing sustainably in the long term. Using TNAs and monitoring results, public institutions should ensure effective co-ordination to make sure that the BSSs (particularly those in the form co-financing or subsidies) offered by different public institutions are complementary and achieve the intended impact.

Public procurement (Dimension 5b)

North Macedonia receives a weighted score of 4.49 for this dimension, the best score in the WBT region (Table 17.12). It is also an improvement on its 2016 score of 4.0 (Figure 17.1).

Table 17.12. Scores for Dimension 5b: Public procurement

Dimension	Thematic block	North Macedonia	WBT average
Dimension 5b: Public procurement	Policy and regulatory framework	4.29	3.92
	Implementation	5.00	4.05
	Monitoring and evaluation	3.57	3.24
North Macedonia's overall score for Dimension 5b		**4.49**	**3.84**

State of play and key developments

The main strategic document related to public procurement is the Public Financial Management Reform Programme 2018-2021, prepared by the Ministry of Finance. This strategy provides eight activities for strengthening the national system of public procurement, but no actions relate specifically to SMEs. The basic act regulating public procurement, the Law on Public Procurement (PPL), has been amended many times since its adoption in 2007, including some changes during this assessment period. Changes introduced in 2017 resulted in the significant reduction of formalities in public procurement processes thanks to the abolition of the Public Procurement Council and the obligation for contracting authorities to obtain (on payment of a fee) approval from the Council for some preparatory activities in public procurement. These amendments have enabled public procurement procedures to be streamlined and reduced the costs of procurement. However, the amendments have not yet removed inconsistencies with EU law concerning the use of the most economically advantageous tender criterion (the basic tender selection criterion according to the PPL is by price only) or the general obligation to hold electronic auctions.

The Ministry of Finance and the Public Procurement Bureau have been working in 2017-18 on a draft of the new PPL which should implement the 2014 EU Public Procurement Directives. The draft law was finalised in August 2018 but at the time of writing (October 2018) was not yet adopted by the government.

The current PPL provides for equal treatment and non-discrimination of economic operators. Access to public procurement is open to all economic operators, who may participate in public procurement procedures as legal persons, natural persons or groups of such persons. The PPL does not provide for preferential treatment of domestic suppliers or contractors over foreign ones.

Economic operators can join forces and submit a tender or a request to participate as a group without being required to assume a specific legal form of association. Public procurement contracts can be divided by contracting authorities into lots. The contracting authorities can impose requirements on economic operators interested in participating in public procurement. These could concern: the personal situation of candidates or bidders, their ability to pursue the professional activity, economic and financial standing, technical or professional ability, and quality assurance and environmental management standards. The contracting authorities are not allowed to apply requirements related to the economic and financial standing of suppliers or their professional or technical ability that are disproportionate to the contract. They may require tenderers to provide guarantees in the form of a bank guarantee or deposited funds, but must state this in the tender documentation. The contracting authority may require the winning tenderer to provide performance guarantees about the execution of the contract but not for design contests or the procurement of consulting services.

Economic operators who fail to meet their tender or performance guarantees will have negative references published on the electronic system of public procurement (ESPP) website (see below). This results in them being automatically excluded from participating in procurement procedures for one year from the date of the negative reference. This automatic exclusion does not comply with the EU *acquis*, however.

The PPL provides for advance payments, which benefit economic operators and particularly SMEs. Advance payments cannot exceed 20% of the public contract value. The PPL also allows for subcontracting by the winning tenderer to third parties (subcontracts). The tenderer is fully liable to the contracting authority for executing the contract regardless of the number of subcontractors hired. Public procurement provisions do not place any limitations on the value (share) of the subcontracted part or parts of public procurement contracts.

The Public Procurement Bureau within the Ministry of Finance carries out tasks related to developing the public procurement system. One of the strengths of North Macedonia's public procurement system is its advanced electronic procurement. The bureau maintains the ESPP website, which enables procurement procedures to be done electronically. It also publishes annual reports on the functioning of the public procurement system. These reports provide some statistical information on SMEs, such as the number of SMEs registered in the ESPP and how many are awarded public contracts each year.

The State Appeals Commission (SAC) is an independent, state-financed authority with the capacity of a legal entity. The SAC is competent to resolve appeals concerning contract-award procedures, as prescribed by the PPL. The SAC is also required to act *ex officio* with regard to 12 major violations listed in the PPL. Any economic operator with a legal interest in the award procedure that has suffered damage, or may suffer damage, as a consequence of a possible violation of the PPL, may initiate an appeal. The PPL's provisions on legal protection of economic operators basically comply with the relevant EU requirements. The fees economic operators pay to file an appeal are relatively low compared with those applied in other economies in the region, and vary between the equivalent of EUR 100 and EUR 400.

The way forward for Dimension 5b

North Macedonia has a solid public institutional and regulatory framework for public procurement which offers a number of solutions that take SMEs' needs into account. For the future, it should place more emphasis on the following points:

- **Further align national legislation with EU rules and international good practice**. In particular:
  - Modify provisions for the evaluation of tenders by enabling the general application of the most economically advantageous tender criterion (currently the only basic criterion is price).
  - Modify the current system of negative references resulting in automatic exclusion for a fixed time period from all public procurement procedures, to

comply with EU provisions and the case law of the Court of Justice of the European Union.
  - Complete the implementation of the 2014 EU Directives.

- **Dedicate more attention to SMEs in strategic documents on public procurement.**
- **Increase the use of non-price criteria** by providing the contracting authorities with training, advice and examples of good practice.

Access to finance for SMEs (Dimension 6)

North Macedonia's score for this dimension has increased to 3.63 from 3.46 since the last assessment (see Figure 17.1 and Table 17.13). Although this improvement was mainly driven by the removal of savings and loan associations from the assessment framework, improvements have also been made in the legal framework for bank lending and financial literacy.

Table 17.13. Scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	4.76	4.20
		Registers	4.75	4.58
		Credit information bureaus	5.00	4.55
		Banking regulations	3.50	3.79
		Stock market	3.46	2.93
		Weighted average	**4.46**	**4.14**
	Sub-dimension 6.2: Bank financing	Banking lending practices and conditions	3.37	2.92
		Credit guarantee schemes	1.67	2.30
		Weighted average	**2.69**	**2.67**
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	2.17	3.57
		Leasing	3.17	2.84
		Factoring	1.50	2.45
		Weighted average	**2.28**	**2.95**
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	1.78	2.32
		Design and implementation of government activities	2.82	2.48
		Monitoring and evaluation	1.00	1.48
		Weighted average	**2.09**	**2.22**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	1.98	2.44
		Monitoring and evaluation	1.00	1.19
		Weighted average	**1.79**	**2.19**
North Macedonia's overall score for Dimension 6			**3.63**	**3.53**

State of play and key developments

Legal and regulatory framework

Access to finance is supported by a reasonably well-developed regulatory framework. For instance, according to the World Bank's *Doing Business* report (World Bank, 2018), North Macedonia scores 10 out of 12 for the strength of its legal rights index, which looks at creditor rights and registers for pledges over immovable and movable assets. A cadastre operated by the Real Estate Cadastre Agency is available on line and is accessible to the public. There is a register for pledges over movable assets (the Central Registry of the Republic of North Macedonia), but it is not accessible on line. Instead, interested parties need to apply to the register to receive the desired documentation, thereby somewhat limiting its use.

North Macedonia has both a public credit registry and a private credit bureau. The private bureau's coverage is significantly wider, covering 100% of the population (compared to only about 40% for the public registry). This coverage has been achieved over recent years by starting to collect information from retailers and utility companies. In 2018, the credit bureau also introduced credit scoring and anyone subject to credit referencing has the right to access their credit information.

Implementation of Basel III is underway and capital requirements in line with Basel III have already been adopted since March 2017, with SME loans having the same capital requirements as corporate loans. Since June 2016, banks are required to disclose foreign exchange risks to their clients if they take out a loan in foreign currency or in local currency with a foreign exchange clause.[9] At the same time, exchange rate stability remains one of the key objectives of the National Bank of the Republic of North Macedonia (NBRM). The NBRM also includes de-euroisation as an objective in its official strategy.[10] The share of loans denominated in a foreign currency[11] has been relatively stable, averaging around 45% since the last assessment, with a slight decreasing trend since 2017 (NBRM, 2018[34]).[12] Although this share is still sizeable, overall levels are lower than in many other regional economies, such as Albania, Bosnia and Herzegovina, and Serbia.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Lending to the private sector has been somewhat subdued and has slowed to non-financial corporations, including SMEs, in particular in recent years. As a result, non-financial corporations' share of banks' total credit exposure declined from 43% in December 2015 to 40% in June 2018 (NBRM, 2018[34]),[13] and more recent credit growth has mainly been driven by consumer lending. Around one-third of all business loans go to SMEs,[14] compared to just under half across the other Western Balkan economies. Non-performing loans (NPLs) have dropped significantly since their peak in 2013, partly due to the easing of write-off standards introduced by the NBRM in 2016. Building on these actions, a draft strategy has been developed to improve NPL management and support the development of a market for the sale of NPLs. The preparation of an action plan to guide implementation is ongoing. Furthermore, North Macedonia's banking sector has one of the highest NPL coverage ratios in the region. All of this should, in the medium term, help strengthen credit growth. SMEs in particular tend to suffer from high collateral requirements and complex loan application procedures which exacerbate the issue of access to credit.

SME financing is supported by North Macedonia's Bank for Development Promotion, which also offers a credit guarantee scheme. However, take up is minimal with just one active credit line in the economy. The Ministry of Economy has a grants programme to support entrepreneurship and competitiveness through the Agency for the Promotion of Entrepreneurship. To give entrepreneurs better access to these programmes, a centralised portal (https://konkurentnost.mk/) providing information on financial and non-financial support programmes and their criteria has recently been established.

Non-bank financing remains below potential. Microcredit is mainly offered through specialised microfinance institutions. There are also small-scale microcredit organisations that are not regulated by the NBRM and that provide loans of up to EUR 10 000. They usually also provide training alongside this finance and are widely used by the smallest companies and the informal sector. Leasing penetration is around 0.2% of GDP, one of the lowest levels in the region. Similar to other Western Balkan economies, it is highly concentrated in vehicle leasing. Sparkasse Group is the only entity offering equipment leasing in the economy. Factoring is offered by the majority of commercial banks and there are several dedicated factoring companies, but take up has been very limited to date, partly due to the absence of an adequate legal framework. The EBRD is supporting a project to improve the factoring legal framework, which is expected to be completed in 2019, thereby reducing legal uncertainty. However, given the very low awareness of factoring services and their potential benefits to small businesses, further efforts will be needed to promote factoring once the new legal framework is fully in place.

Venture capital is in its infancy, although the development of the sector is part of the Innovation Strategy 2012-2020. Overall, investors' appetite remains low and equity investments in the economy remain limited with barely any active equity funds present. One positive sign is the three recent small-scale investments of the IFI-supported Enterprise Innovation Fund (ENIF). According to the European Business Angels Network, there are also three local business angel networks in North Macedonia but investments are negligible both in number and size. One key public funding source for start-ups is the Fund for Innovation and Technological Development (FITD). It has a programme to provide grants to young firms (up to six years old) in North Macedonia for research and development (R&D) activities (FITD, 2018[35]).

Financial literacy

The share of financially literate adults in the population is low – 21.5% in 2014 compared to a regional average of 27.5% (GFLEC, 2015[36]).[15] Low levels of financial literacy can be a major obstacle to SMEs' access to finance and often go hand in hand with a low uptake of alternative instruments, as seen above. The Ministry of Finance is one of four organisations tasked with improving the population's financial literacy. Efforts currently mainly focus on school programmes, although there is training for entrepreneurs. For example, the Agency for the Promotion of Entrepreneurship offers training, but not on a regular basis. Private training providers also exist.

The way forward for Dimension 6

Despite a relatively well-developed legal framework, lending to SMEs remains below potential and could be supported by helping SMEs overcome collateral constraints. The take up of alternatives to bank financing is also low, partly due to an inadequate legal framework as well as low awareness and understanding of non-bank financing products. Efforts to support SMEs' access to finance should include the following:

- **Increase awareness of the various financing instruments.** Making information on financial instruments available to small businesses would help increase uptake of non-bank financing by widening knowledge about opportunities other than bank credit. Awareness could be raised via a central information platform (e.g. on line) that is easily accessible and has clear guidance on the various aspects of access to finance, including explanations or learning tools to help entrepreneurs understand the range and applicability of different financial products. This platform could be established on a standalone basis, or be added to existing websites such as the recently created https://konkurentnost.mk (see Section on Operational environment for SMEs (Dimension 4) for more information on this website).
- **Complete the reform to create a specific legal framework for factoring**. This will improve the certainty and transparency of factoring transactions and thus

facilitate uptake. The reform of the legal framework should be complemented by awareness-raising efforts to broaden and deepen businesses' knowledge of this financing instrument.

- **Improve the accessibility of registers for securities over movable assets**. The system should be easily accessible to users and ensure reliable, up-to-date records to encourage lending against such collateral. This will encourage the use of movable assets as collateral and thus help SMEs access financing.
- **Consider reviewing the existing credit guarantee scheme** to ease pressure on SMEs to provide collateral. Simplified procedures and closer collaboration with banks, ideally by them having a stake in the scheme, may improve uptake and make the scheme a more effective tool to support SMEs' access to bank credit.

Standards and technical regulations (Dimension 7)

Compared to the previous assessment, North Macedonia has regressed in this dimension (see Figure 17.1), with its overall score decreasing from 4.02 to 3.50 (Table 17.14). This regression reflects its weaker performance in harmonising with the EU *acquis*, especially the stagnation in transposing technical regulations and declining institutional capacities and competences for standardisation and market surveillance.

Table 17.14. Scores for Dimension 7: Standards and technical regulations

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures		2.50	3.12
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	3.00	3.87
		Standardisation	3.50	3.97
		Accreditation	4.92	4.53
		Conformity assessment	2.80	3.65
		Metrology	4.11	4.47
		Market surveillance	4.60	4.43
		Weighted average	**3.82**	**4.15**
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	4.50	4.24
		SME participation in developing standards	2.50	2.57
		Financial support to SMEs	2.00	2.39
		Weighted average	**3.00**	**3.07**
North Macedonia's overall score for Dimension 7			**3.50**	**3.83**

State of play and key developments

Overall co-ordination and general measures

The Internal Market Division within the Ministry of Economy is responsible for the overall policy and co-ordination of technical regulations and quality infrastructure. However, its co-ordination role excludes the market surveillance "pillar", hampering a holistic approach to quality infrastructure. During the assessment period, the National Programme for Adoption of the Acquis 2017-2019 was adopted to guide further efforts towards aligning legislation with the EU *acquis*.

North Macedonia has no central contact point for exporters or designated portal to provide enterprises with all the relevant information about the technical regulations they need to meet in order to place products on the domestic, European and international markets. As a result, SMEs face difficulties in accessing information on what standards they need to meet, as well as how to apply them.

Harmonisation with the EU acquis

Administrative structures are in place in the area of technical regulations, standardisation, accreditation, conformity assessment, metrology and market surveillance. However, North Macedonia is yet to reach full alignment with EU sector-specific legislation, especially the 2001/95/EC General Product Safety Directive. A draft of the new Law on

Product Safety is envisaged for January 2019, and North Macedonia has already accepted a plan for adopting the necessary rulebooks to finalise alignment with the directive. It has yet to assess the training needs of the institutions implementing the technical regulations.

North Macedonia has made significant progress in adopting European standards. By the end of 2017, it had adopted 23 686 European standards and withdrawn all conflicting standards. However, most of the standards are adopted by the endorsement method, i.e. issuing an "endorsement notice", which makes it difficult for SMEs to find the relevant standards, understand their content and apply them correctly. North Macedonia is also developing its own national standards, and by 2017 the Standardisation Institute (ISRM) had notified the European Committee for Standardisation (CEN) of 17 original national standards, with 9 more in the pipeline. The ISRM currently employs 25 staff but aims to increase the number to 28 in order to strengthen and expand its current activities. It also aims to increase and diversify its revenues – currently revenues from the sale of standards make up 5-10% of its total budget. North Macedonia is a full member of the CEN and the European Committee for Electrotechnical Standardisation (CENELEC). It is also a full member of the European Telecommunications Standards Institute, a member of the International Organization for Standardisation and an associate member of the International Electrotechnical Commission.

The economic needs and priorities for conformity assessment have been analysed and the designation procedure has been fully implemented (OECD, 2018[6]). North Macedonia has satisfactory capacity and competence to carry out conformity assessments in priority sectors, and enough accredited conformity assessment bodies (CABs). In total, it has 206 CABs, a significant increase from the 130 in the previous assessment. It has managed to increase the number of CABs by accrediting laboratories operating within state-funded higher education facilities and public health institutions. All CABs are easily accessible for SMEs through an online register on the Institute for Accreditation of the Republic of North Macedonia's (IARM) website, which provides detailed information on the types of activities they undertake, e.g. testing, inspection and certification.

The legislation on conformity assessment is in line with the EU *acquis* and the Accreditation Council (comprising representatives of government, CABs, industry, universities and the consumer protection agency) monitors the activities of the IARM. North Macedonia is a full member of the European Co-operation for Accreditation (EA) and a signatory to the Multilateral Agreement (EA MLA). In 2018, the scope of the EA MLA was extended to the certification of management systems, meaning it now covers five areas.[16] In the WBT region, only Turkey and Serbia have signed EA MLAs covering more areas of accreditation. The IARM is a member of the International Accreditation Forum and is a signatory to its multilateral agreement for product certification. As a full member of the International Laboratory Accreditation Cooperation, it is also a signatory to its Mutual Recognition Arrangement. North Macedonia has also been the most active of the WBT economies in regional co-operation – the IARM has concluded bilateral agreements with all the national accreditation bodies in the region. These international recognition agreements enhance the acceptance of products across national borders. By removing the need for additional calibration, testing and/or inspection, this reduces technical barriers to trade, relieving SMEs of extra burdens and costs when exporting.

Legislation in the field of metrology is not fully aligned with the EU *acquis*, although new legislative documents to complete the harmonisation process are being drafted. The Bureau of Metrology of the Republic of North Macedonia (BOM) is operational but has only 45 employees; it needs additional technical experts but no funding has been allocated to finance staff increases. In 2017, BOM benefited from twinning assistance from the Czech Metrology Institute under the IPA II programme. The project aimed to raise awareness and strengthen the technical capacity of BOM's staff working in the fields of electrical quantities, dimensions and gas flow. The Metrology Council is responsible for monitoring metrology activities and reporting on them to the Ministry of Economy. However, these reports have not yet been made available. BOM is a member of the European Association of National Metrology Institutes and the International Organisation of Legal Metrology. It is an associate member of the European Cooperation in Legal Metrology and the International Bureau of Weights and Measures.

The State Market Inspectorate carries out market surveillance. Although North Macedonia has the most advanced risk-based inspection in the region, market surveillance activities are hampered by the lack of inspectors, outdated equipment and insufficient financial support to carry out product sample tests. In 2017, the State Market Inspectorate conducted 752 inspections of non-construction products (an increase from 500 in 2016), and 524 inspections of construction products (an increase from 261 in 2016).

SME access to standardisation

North Macedonia has made efforts to foster dialogue between the ISRM and business associations representing SMEs. The Chamber of Commerce provides information to SMEs and facilitates communication with them. For example, the ISRM and the Chamber of Commerce organise joint seminars in various cities, particularly for the construction sector.

The ISRM publishes monthly bulletins to inform SMEs about newly adopted national standards, proposals for new standards and the work of Technical Committees (TCs). Its website also regularly provides information on new standards developed by CEN and CENELEC. However, there are no practical guides to implementing standards or successful case studies on the benefits of using them.

There are no financial or other measures to encourage SMEs to get involved in TCs, such as covering their travel costs or introducing digital tools to make participation easier. However, the ISRM has set up a working group to develop a strategy and an action plan to increase SMEs' participation in standardisation. One proposal under consideration is offering SMEs discounts when buying standards – something which is not currently available. SMEs can also apply for a voucher from the Innovation Fund to support investment in quality infrastructure, including implementing standards and gaining certification. In 2016, 9 companies used 13 vouchers to implement standards, falling to 6 companies and 11 vouchers in 2017.

The way forward for Dimension 7

Despite North Macedonia's progress in incorporating European standards, it still needs to address some key challenges:

- **Establish a single source of tailored information for SMEs** on the regulatory requirements and conformity assessment procedures SMEs need to follow to export to the EU Single Market. For example, this could include guidance for SMEs on how to find the relevant standards for their sector. The coverage of the current web portal (www.konkurentnost.mk) could be extended to include the information exporters need on technical regulations and standards.

- **Encourage SMEs to get involved in the process of developing standards.** SMEs may be aware of standards in general but may not realise that they can actively participate in and influence their development. This is why the ISRM has set up a working group to develop a strategy and an action plan to increase their participation. One of the measures the working group could consider is offering training to SMEs in the benefits of participating in standards development and implementing standards. Box 17.4 offers some additional examples of best practice to increase SME participation in standardisation, which could also inform the ISRM's strategy and action plan.

- **Complete the alignment with the General Product Safety Directive** and ensure there are adequate administrative capacities to enforce it. The General Product Safety Directive (GPSD) complements sector-specific safety rules that apply to toys, electrical and electronic goods, cosmetics, chemicals, and other product groups. When the European Commission held a public consultation on the ten most burdensome legislative acts for SMEs across the EU, the GPSD came fourth (EC, 2013[39]). North Macedonia should ensure that it also provides enough support to SMEs to help them access and implement harmonised standards and other responsibilities under this directive

Box 17.4. Increasing SME participation in standards development: lessons from OECD and EU best practice

- The ISRM could develop case studies of SMEs that have successfully participated in standardisation. The website of the Belgian national standards body includes a series of case studies and testimonials of SMEs (NBN, 2018[37]).

- Web-conferencing could help SMEs to participate in TCs, allowing them real-time engagement without having to incur travel costs. Standardisation meetings in Germany are either completely virtual or some members can join through the web-conferencing tool. SMEs can also use the national standards body's dedicated portal to read and comment on draft standards without being members of the TC (DIN, 2018[38]).

- Business associations in North Macedonia could inform their members about relevant standardisation projects for their sector or discipline. For example, the German trade association for the machinery industry is working closely with the national standards body to provide SMEs with information on standards and new draft standards developed at the European and international level. It also selects comments from SMEs on draft standards and formulates a common strategy.

Sources: Information from the websites of the national standards bodies of Belgium and Germany .

Enterprise skills (Dimension 8a)

North Macedonia performs poorly on this dimension, with a score of only 1.4, well below the WBT average (Table 17.15).

Table 17.15. Scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	North Macedonia	WBT average
Dimension 8a: Enterprise skills	Planning and design	1.50	3.38
	Implementation	1.50	2.83
	Monitoring and evaluation	1.00	2.29
North Macedonia's overall score for Dimension 8a		**1.40**	**2.87**

State of play and key developments

As North Macedonia strives to pursue economic growth, the competitiveness of its SMEs is brought to the fore. Because the economy will not be able to compete with low-cost wages in the long term, it will be crucial to improve its competitiveness through greater entrepreneurship, value added and productivity (Republic of North Macedonia, 2016[40]). The Competitiveness Strategy and Action Plan aimed to increase the number of SMEs and reduce the unemployment rate from 25.5% in 2015 to 22% by the end of 2018. This and future goals, such as smart specialisation,[17] will not be reached without the right skills.

Very limited information is available about the labour market and its skills structure. There has been no systematic approach to analysing SME training needs, which means skills mismatches – both in quantity and quality – go unidentified and unaddressed, risking hampering the productivity and growth of SMEs. This in turn affects the ability of SMEs to contribute to reducing unemployment. Unlike larger companies, SMEs cannot bear the cost of closing skills gaps by providing their own training. There have been a few recent initiatives to improve the quantity and quality of information on current and future labour demand but they are at an early stage. The Ministry of Economy has a plan to establish an integrated performance management system in line with the recommendation by the State Audit Office and the SME Strategy to improve the quality and quantity of SME data. Neither of these make specific mention of a dedicated training or skills needs analysis of SMEs, however. The Ministry of Education and Science, supported by the World Bank's Skills Development and Innovation Support Project, has established a Skills Observatory function within the ministry and is developing an online platform (subject to data protection laws) to provide information on education and training provision, job placements for graduates, links to information about job demands, forecasting of labour demand, etc (ETF, forthcoming[41]).

In April 2018, the government adopted a new National Strategy for SMEs (2018-2023) which aims to boost SMEs' job creation potential. The strategy foresees specific measures to promote young, high-growth enterprises as important contributors to employment. In line with the new strategy, the APPRM provides training and mentoring to SMEs, although these services are limited by its budget. Training provision for pre-start-ups is available from the Agency for Employment, the Agency for the Promotion of Entrepreneurship, the APPRM and donors such as the UNDP. No training is provided for SMEs trading with the EU Single Market but there are plans to conduct a national assessment of the constraints and opportunities in emerging international markets, and the capacity of SMEs to enter them. The new SME Strategy plans to intensify government support in this area. The Ministry of Economy runs a targeted programme for women entrepreneurs. The UNDP's self-employment programme concentrates solely on the unemployed; training for those already in employment but with entrepreneurial aspirations is not readily available.

Although information about private business support services (e.g. mentoring or coaching) is available on line, the online platform being developed by the Skills Observatory does not include support services to business. However, the new SME strategy foresees the creation of a comprehensive online one-stop SME portal to provide a range of useful information for the sector, such as on policies, programmes, trends and support services.

The new strategy for SMEs expects to provide a much-needed framework for SME skills governance, as well as monitoring and evaluation, by establishing a co-ordination mechanism between the Ministry of Economy, the State Statistical Office and other stakeholders from the public and private sectors and civil society. This will complement the Competitiveness Working Group chaired by the Office of the Prime Minister and which includes the Cabinet of the Deputy Prime Minister for Economic Affairs, line ministries and the Agency of Foreign Investments and Export Promotion, the Agency for the Promotion of Entrepreneurship and the National Council for Entrepreneurship and Competitiveness.

The way forward for Dimension 8a

To address these challenges and boost the competitiveness of the economy, the government needs to:

- **Develop a systematic approach to determining what training is needed, when and where.** Access to skilled labour is one of the biggest barriers to SMEs' competitiveness and growth. To move forward with smart specialisation, North Macedonia will need to identify the skills required by the smart specialisation niches and the impact this will have on the demand for labour. It will be critically important to collaborate with the education sector to understand the existing and future requirements for skills, and to ensure new workers can supply them, as well as improving the skills of the existing workforce. The Ministry of Economy should therefore take the lead in developing a regular and systematic value-added SME TNA, through the co-ordination body for the National Strategy for SMEs, and in close co-operation with education and training providers.
- **Proactively provide SMEs with a wider array of learning opportunities** and multiple channels to support their growth, whatever their level of development. SMEs would benefit if the training on offer was both broader and more targeted to SMEs at different stages of development and aspirations. Access to finance – for example from the FITD – could be coupled with training, or promote collaboration with other entrepreneurs. This could be achieved by supporting peer-to-peer networks, which might match start-up SMEs who have strong technological knowledge with an entrepreneur with expertise in their target market, for example. Existing regional networks of public services might be used to build up support to SMEs, such as a local one-stop shop for information on training, mentoring opportunities, connecting to networks, business advice, etc.
- Support **SME internationalisation.** The new SME Strategy foresees the government intensifying its support for increasing SMEs' exports. The Ministry

of Economy should include education and training in its planned assessment of the opportunities, constraints and capacity among SMEs entering emerging international markets. Training services (including coaching and mentoring) to support SME internationalisation should be an integral part of the planned increase in funding to the Agency for Foreign Investment and Export Promotion of the Republic of North Macedonia (Invest Macedonia).

Innovation policy for SMEs (Dimension 8b)

North Macedonia is second only to Turkey in the region for this dimension, with a score of 3.35 (Table 17.16), continuing its strong performance since the last assessment (see Figure 17.1).

Table 17.16. Scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 8b: Innovation policy for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	3.80	3.46
		Co-ordination of innovation policy	3.67	2.97
		Implementation of innovation policy	4.14	3.04
		Weighted average	**3.94**	3.15
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.14	2.99
		Technology extension services for established SMEs	2.67	1.74
		Weighted average	**2.95**	**2.49**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	4.20	3.76
		Indirect financial support	1.22	1.38
		Weighted average	**3.01**	**2.81**
	Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	3.00	2.52
		Institutional infrastructure for industry-academia co-operation	2.80	2.72
		Intellectual property rights	3.00	3.00
		Weighted average	**2.92**	**2.70**
North Macedonia's overall score for Dimension 8b			**3.35**	**2.86**

State of play and key developments

Policy framework for innovation

The government laid out its strategic innovation policy framework in 2012 when it adopted the 2012-2020 Innovation Strategy. This document was prepared following a comprehensive evaluation of the national innovation system conducted in partnership with the OECD under the Regional Competitiveness Initiative. The government also adopted a 2016-18 action plan, with estimated budgets for each activity.

In 2013, FITD was established as the implementing agency for innovation policy. The World Bank's Skills Development and Innovation Support Project allocated FITD significant resources, giving it a total budget of EUR 17.7 million. One component of this project included capacity building for FITD and piloting of financing instruments for innovative SMEs. FITD is fully operational, with a staff of about 25, and its operational costs are fully financed from the state budget. After several cycles of financing, an impact assessment of FITD's instruments was conducted in 2018, but at the time of writing the result of this assessment was not yet publicly available.

To co-ordinate all actors and monitor the implementation of the Innovation Strategy, the government established an advisory body, chaired by the Deputy Prime Minister for

Economic Affairs, which brings together all the relevant public institutions with private sector representatives.

Government institutional support services for innovative SMEs

There are few active incubators in North Macedonia. One example is YES Foundation's business incubator in Skopje which focuses on micro, small and medium-sized companies in the information and communications technology sector. It supports their business incubation and offers services, training, mentoring and networking opportunities. Another example is the South East European University TechPark Incubator in Tetovo, which is located on the university campus. The CEED Hub in Skopje also offers a co-working space for young entrepreneurs and provides opportunities for education and mentoring programmes. Finally, the Centre for Technology Transfer and Innovations has recently been established at the Faculty of Electrical Engineering in Skopje. This operates as a technology transfer office, but also provides co-working space and services to start-ups.

Significant improvements are expected in government support for business incubation and acceleration from 2018 onwards. The Fund for Innovation and Technological Development has launched two co-financing programmes for these activities. One instrument provides financing of up to EUR 500 000 and up to 75% of total project value for accelerator programmes. Three accelerators were awarded funds through this instrument in October 2018. The second instrument supports technology extension services: up to EUR 500 000 is awarded to service providers; four such providers were chosen during the first call for proposals in October 2018.

Government financial support services for innovative SMEs

The FITD also operates two financing instruments for innovative SMEs. The first is a co-financing grant for newly established start-up and spin-off companies through which companies can apply for support of up to EUR 30 000 and up to 85% of the total project value. The latest (fifth) call for this instrument was launched in October 2018. About EUR 1.1 million have been allocated so far by FITD through this instrument. The second instrument supports companies' commercialisation activities with grants of up to EUR 100 000 and up to 70% of the total project value. So far, FITD has allocated about EUR 1 million through this instrument.

In 2018 FITD also implemented the third pillar of the national Economic Growth Plan (Box 17.5), through which co-financing grants were provided for high-growth companies, micro enterprises, innovation, VET and youth employment. This instrument generated high interest among businesses; out of the 236 which applied, 79 received funding. Most of the funding (81%) was allocated to business innovation projects. The total support amounted to EUR 10.3 million and the government has announced further support for this measure in 2019.

In terms of indirect financial support for private sector research, development and innovation activities, there are no tax incentives for R&D, but the government is currently working on amendments to the Procurement Law which will encourage innovation through procurement and will also include the quality of proposed goods and services in the procurement criteria (see Section on Operational environment for SMEs (Dimension 4)).

SME and research institution collaboration and technology transfer

Although there are very few instruments at the moment that foster business-academia collaboration, the government has recognised its importance and is designing several new activities to encourage collaboration. The only existing instrument is the innovation voucher scheme for SMEs, offered by the Agency for the Promotion of Entrepreneurship. In addition to this, the FITD commercialisation scheme does allow businesses to apply for projects in consortia with research institutions; however, this type of collaboration is not mandatory for this instrument.

Box 17.5. The Economic Growth Plan: The new industrial policy support framework

The Economic Growth Plan (EGP) is comprised of three pillars and serves to provide an outline for industrial growth, with a particular focus on supporting investments by large companies. The EGP is underpinned by the Law on Financial Support of Investments (2018) for the first two pillars, and FITD's Programme of Work for the third pillar.

EGP's activities provide support to all enterprises in North Macedonia. The three pillars are as follows:

Pillar 1: All enterprises: investment

- creating new jobs
- establishing and enhancing co-operation with suppliers from North Macedonia
- establishing technological development and research departments
- investment projects of significant economic interest for North Macedonia
- increasing capital investments and income
- acquiring companies in difficulty.

Pillar 2: All enterprises: internationalisation

- helping companies to increase their competitiveness in new markets
- winning new markets and increasing sales.

Pillar 3: SMEs

- supporting fast-growing SMEs ("gazelles")
- supporting micro enterprises
- improving innovation in SMEs
- promoting professional upgrade and practice for newly employed young people
- preparing the legal bases for developing venture capital.

Source: Ministry of Economy (2018[42]), *Industrial Strategy with a Focus on the Manufacturing Sector: Draft for Consultation*, https://konkurentnost.mk/wp-content/uploads/2018/06/IndustryStrategy17MayCLEAN.pdf.

The government is also preparing a feasibility study for the development of a science and technology park in North Macedonia through an EU supported project. At the same time, the World Bank Skills Development and Innovation Support project mentioned above is supporting the establishment of a national technology transfer facility – to be potentially located within the premises of the new science and technology park – which will provide technology transfer services to all research institutions in the economy.

The way forward for Dimension 8b

North Macedonia has made significant efforts to support private sector innovation since 2012. However, some challenges remain, which the following steps could help to resolve:

- **Ensure sustainability and streamline existing innovation support programmes.** FITD's institutional capacity building and design and piloting of innovation support instruments have been financed through a World Bank-supported project. Delays in implementation mean that this project is expected to be extended for another two years. But when this project comes to an end, the government will have to take over regular financing of the FITD instruments. The transition from donor-based or loan-based funding to budgetary funding often creates problems and can lead to instruments not being available over an extended period of time, which causes uncertainty for businesses. Therefore, it is important for the government to secure continuous funding for these efforts while at the same time regularly monitoring and evaluating their impact to ensure that they are designed to meet enterprises' needs. With the large number of instruments introduced, including those through the Economic Growth Plan, it is important to avoid overlap and confusion among enterprises and to streamline measures to ensure they cover all stages of the innovation cycle.
- **Develop specific instruments for joint business-academia collaboration.** To supplement the government's efforts in fostering business-academia collaboration, such as the development of technology transfer activities, funding will be needed to support projects co-developed by businesses and research institutions. Even though the two can collaborate through the FITD commercialisation scheme, it is often the case that when an instrument is not tailor-made to require this type of collaboration, it will not happen on its own.
- **Improve monitoring and evaluation in all innovation programmes**. The first impact assessment of the FITD programmes is under way, but continuous monitoring and evaluation is needed for all innovation policies, including those implemented through the various government ministries.

SMEs in a green economy (Dimension 9)

North Macedonia is among the few WBT economies that have improved their performance in this dimension. Even though the score of 2.72 in 2018 points to a slight deterioration compared to 2.80 in 2016 (see Figure 17.1). and Table 17.17), this is mainly a result of methodological changes. Positive developments have occurred, but mainly in policy design – additional efforts are still needed to move SME greening forward.

Table 17.17. Scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 1: Framework for environmental policies targeting SMEs	Planning and design	3.67	3.81
		Implementation	2.91	2.56
		Monitoring and evaluation	1.85	2.12
		Weighted average	**2.93**	**2.85**
	Sub-dimension 2: Incentives and instruments for SME greening	Planning and design	2.38	2.32
		Implementation	2.91	2.76
		Monitoring and evaluation	1.85	1.72
		Weighted average	**2.54**	**2.42**
North Macedonia's overall score for Dimension 9			**2.72**	**2.61**

State of play and key developments

Framework for environmental policies targeting SMEs

Environmental policies that target SMEs have become part of North Macedonia's new SME Strategy, adopted in 2018. The strategy is fully aligned with the Small Business Act for Europe and translates Principle 9 (Enable SMEs to turn environmental challenges into opportunities) into concrete actions. The strategy includes a set of measures on providing advice and guidance to SMEs, improving resource efficiency and introducing financial incentives for SME greening. Monitoring mechanisms are an integral part of the SME Strategy.

One of the activities foreseen is the preparation of the Green SME Development Strategy in 2018, to be implemented from 2019 onwards. However, it is not clear what measures this Green SME Development Strategy will entail and what its concrete timeline will look like. The total budget mobilised for its realisation is EUR 35 000, with the Ministry of Economy acting as the co-ordination body, working alongside the following partner institutions: the Ministry of Environment and Physical Planning, the Agency for Foreign Investments and Export Promotion, and the Agency for the Promotion of Entrepreneurship (APPRM).

In addition to this strategic document, SME greening is addressed in some other national documents. These focus in particular on information dissemination and providing expertise to help SMEs take advantage of the opportunities from emerging green markets and improved resource efficiency. Resource efficiency and eco-innovation are promoted through the Draft Waste Prevention Plan 2018-2024, whose main objectives are strengthening waste management capacities at both the national and local level, transposing the EU's environmental regulations, and working towards the zero-waste target. It also focuses on preventing waste generation and benefitting from green market opportunities, such as exporting waste. The Ministry of Environment and Physical Planning (MoEPP) is the focal point for supporting SMEs and other stakeholders with advice and guidance. In addition, a Waste Prevention Working Group – consisting of government members, private sector representatives and experts – is to be created to represent and encourage all stakeholders in the economy to implement waste prevention actions. Training courses for waste producers and SMEs in waste prevention and the circular economy are planned as part of the EU-funded Twinning Project (2017-2019) in partnership with MoEPP.

The private sector was consulted in developing environmental policies, SME greening strategies and related action plans. The government of North Macedonia also co-operates with business associations and local councils for providing environmental guidance to SMEs. According to the SMEs interviewed, this co-operation is quite successful. The Waste Prevention Plan is a good example of public-private co-operation – private sector representatives are part of the working group aimed at providing concrete advice and guidance to interested SMEs.

Incentives and instruments for SME greening

MoEPP offers support to SMEs in obtaining environmental licences. It develops programmes in consultation with businesses and the non-government sector, especially ecological organisations. Moreover, once a year MoEPP awards SMEs for the best corporate social responsibility practices, with one of the award categories being environmental protection.

Financial incentives are planned to be introduced through the new SME Strategy, but it remains unclear what type of incentives, and through which channels they will be introduced.

The way forward for Dimension 9

SME greening is doubtlessly gaining momentum in North Macedonia – many initiatives are foreseen in recent strategies, and this policy area is gradually being mainstreamed into SME policy making. To ensure the effective implementation of the planned policy measures, the government should consider the following measures:

- **Adopt a whole-of-government approach to create synergies and avoid overlapping greening initiatives.** Given the different SME greening activities that are planned as part of the various strategies in North Macedonia, their effective co-ordination is vital to avoid overlaps. In this context, a whole-of-government approach will help to ensure an integrated government response to SME greening. The establishment of a formal co-ordination mechanism in which the Ministry of Economy and the Ministry of Environment and Physical Planning plays a vital role will be important. But given the cross-cutting nature of greening policies, other relevant ministries, such as the Ministry of Education and Science, should also be active members of this co-ordinating mechanism.
- **Facilitate access to finance for SMEs that aim to adopt environmentally friendly practices**. Financial incentives for SME greening are being introduced with the new SME Strategy. Nevertheless, it is unclear what type of incentives will be used and how they will be financed. The government needs to decide which financial incentives will be introduced, dedicate the related funds and carefully plan the financial schemes to support SMEs. The government is

encouraged to introduce a loan guarantee scheme to support the approval of green project loans and encourage lenders to make their loan terms more attractive to borrowers. To achieve this the government could leverage existing mechanisms, such as the Bank for Development Promotion of North Macedonia, which offers a credit guarantee scheme created to support SMEs' access to finance, mainly through guarantee instruments.

- **Support the transition to a circular economy through direct assistance to the SMEs operating in economic zones.** North Macedonia has well-established economic zones. Targeted assistance for increasing resource efficiency could be provided to those businesses operating in these zones. In particular, the government could develop projects to raise awareness and promote the benefits of increased resource efficiency, while also providing financial, training and mentoring support to SMEs to implement it. In this way, the government could actually test the model among the smaller business population, which could subsequently be replicated across the economy. The Turkish example of Energy Management Units in its Special Industrial Zones is a good model to replicate (Box 17.6).

Box 17.6 Enhancing SME energy efficiency in Turkey: Energy Management Units in special industrial zones

Energy efficiency is one of Turkey's key SME greening goals, and as such is reflected in Turkey's SME Development Strategy 2015-2018. The strategy includes a number of measures to meet the objective of improving energy efficiency.

As part of the Energy Efficient Industry Project, the Turkish Government has formed Energy Management Units in the special economic zones (known as Organised Industrial Zones or OIZs), to reach out to particular production-oriented SMEs, as well as to encourage them to adopt energy efficiency measures. OIZs are designed to allow companies to operate within an investor-friendly environment with ready-to-use infrastructure and social facilities. The infrastructure provided in OIZs includes roads, water, natural gas, electricity, communications, waste treatment and other services.

The project is implemented by the Energy Efficiency Association in partnership with the Ministry of Energy and Natural Resources of Turkey and an Organised Industrial Zones Higher Organization Council. The project aims to enhance energy efficiency in SMEs that are part of the OIZs by raising awareness, promoting a culture of efficiency amongst their staff, and introducing small-scale changes in the industry (reducing electricity/water consumption and achieving savings through simple modifications of certain parts of manufacturing processes). In developing the expertise to develop Energy Management Units the government co-operated with the local office of the Japan International Cooperation Agency and some other partners.

For the last couple of years, energy efficiency has become more pronounced in Turkey – a growing number of SMEs are benefitting from the programmes and savings are being achieved by the beneficiaries.

Sources: Bütüner (2014[43]), *Organized Industrial Zones in Turkey - SWOT*, www.linkedin.com/pulse/20141020214614-114102137-organized-industrial-zones-in-turkey-swot; KOSGEB (2014[44]), *SME Strategy and Action Plan 2015-2018*, *Energy Efficient Industry*, http://enerjiverimlisanayi.com/en/icerik/projemiz/41; Invest in Turkey (2018[45]), Investment Zones, www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/SpecialInvestmentZones.aspx.

Internationalisation of SMEs (Dimension 10)

North Macedonia has made marginal improvements in its support to the internationalisation of SMEs, increasing its overall dimension score from 3.43 to 3.54 over 2016-2019 (see Figure 17.1 and Table 17.18). The contributing factors to its improved performance lie particularly in its sustained support for export promotion and its enhanced efforts for SME integration into global value chains. However, the general lack of programme implementation due to weak operational capacities is a persistent impediment to further improvement.

Table 17.18. Scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	5.00	4.86
		Implementation	4.06	4.24
		Monitoring and evaluation	2.86	3.01
		Weighted average	**4.10**	**4.18**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.60	3.58
		Implementation	3.29	3.08
		Monitoring and evaluation	1.00	1.76
		Weighted average	**3.22**	**2.97**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.29	3.45
		Implementation	3.00	2.26
		Monitoring and evaluation	1.00	1.36
		Weighted average	**2.69**	**2.44**
North Macedonia's overall score for Dimension 10			**3.54**	**3.43**

State of play and key developments

Trade performance indicators reveal that the import/export costs related to border compliance remained stable in North Macedonia between 2014 and 2017 (at USD 150 and USD 103 respectively) (World Bank, 2017[46]). SMEs' share of exports in North Macedonia has decreased modestly over the assessed period and stands at 31.6%, the lowest of the WBT economies. At the same time, SMEs' value added has increased across all size categories, as have the value of exports per enterprise and the total volume of exports, indicating both increased and enhanced productivity of SMEs.

The government has implemented a number of measures that simplify and facilitate trade by making the process of importing and exporting less cumbersome. These include an electronic one-stop shop for obtaining import and export licences, which was first established in 2008 and has been steadily improved over the years.

Export promotion

On the whole, North Macedonia's performance in export promotion is above the average of the region. Export promotion is covered in the Ministry of Economy's National Strategy for Small and Medium Enterprises 2018-2023, which aims to be aligned with the

Small Business Act.[18] Activities to support export promotion under the current SME Strategy include:

- a national assessment of the opportunities, barriers and capacity of SMEs to enter fast-growing international markets and ensure the results inform the revision of the national export strategy
- increased support to the export promotion agency through the formulation of an SME export promotion programme
- improved monitoring and evaluation of export promotion services through the preparation of an annual report on SME participation in export markets.

Likewise, the Competitiveness Strategy and Action Plan 2016-20 covers measures for export promotion. It seeks to select 250 SMEs with export potential to support them with technical and financial assistance for export readiness. The private sector is extensively consulted in forming these strategies through the chambers of commerce, which review them. The primary bodies responsible for implementing the above activities include the Ministry of Finance, Invest Macedonia, and SME development agencies (APPRM and others).

Invest Macedonia is the primary government agency responsible for promoting companies in foreign markets and supporting them in exporting. It is established as a separate legal entity with operational autonomy. Its website offers a centralised source of information to guide companies on exporting; a separate comprehensive handbook for export promotion; and links to useful contact points which include other government institutions and relevant agencies, consulting firms, banks, chambers of commerce and state-owned enterprises.[19]

As well as than providing extensive market information, Invest Macedonia offers support through promotional events, arranging business-to-business meetings and creating qualified export promotion leads in order to help domestic producers. In 2017, Invest Macedonia managed a budget of MKD 600 000 (approximately EUR 9 741) to support export promotion activities, with MKD 4 170 000 (approximately EUR 67 805) allocated for 2018, funded entirely by the government. However, changes in staff are frequent, and have delayed the implementation of its 2018 work plan. Invest Macedonia submits bi-annual reports on its activities to the government, though these are not publicly available.

North Macedonia targets its financial and technical support to export-ready SMEs.[20] The Ministry of Economy provides co-financing to SMEs at 75% up to a maximum amount of EUR 3 000, for market research, marketing strategy, training and promotional materials. It also supports clusters at a 75% co-financing rate (up to EUR 6 500) for export promotion and foreign fairs. The Ministry of Economy issues annual competitive calls for its funding. Activities are monitored and made publicly available in annual reports; however, the beneficiaries of financial support are not made public, nor has there been an independent review of the impact of the export promotion measures.

As regards trade financing, the availability of export credit guarantees for SMEs is explicitly mentioned in the national SME Strategy. The Bank for Development Promotion of North Macedonia provides export credit and insurance, while all major banks and some other non-bank financial institutions provide trade finance loans, guarantees, and letters of credit. One such institution, the Crimson Development Fund, which focuses specifically on trade finance for SMEs (EIB, 2016[47]).[21]

Integration of SMEs into global value chains

North Macedonia's measures to facilitate SME integration into global value chains are covered in three main strategies: the National Strategy for Small and Medium Enterprises 2018-2023; the upcoming Industrial Policy; and the Economic Growth Plan (Box 17.5).

The National Strategy for Small and Medium Enterprises 2018-2023 addresses the development of strategic industrial value chains and clusters. The accompanying action plan aims to identify key international value chains in which SMEs have a capacity to participate successfully, and to develop support programmes and services to help these firms expand into these markets. These measures will be realised through an assessment report on SME participation in international markets (2018) and a cluster mapping report identifying industry clusters connected to international value chains (2019), with a budget of EUR 60 000 over the two-year period.[22]

The forthcoming Industrial Policy (draft at the time of writing) also aims to encourage SME integration into global value chains. Prepared with the support of the EU, it will replace the Industrial Policy 2009-2020. It identifies the lack of SME support as a key threat to the manufacturing sector, and other weaknesses are highlighted, including insufficient linkages between industry, FDI and SMEs (and other sectors of the economy). To remedy these, it foresees objectives and measures related to value chain integration, such as identifying and targeting support to priority manufacturing sub-sectors.[23]

Likewise, the Economic Growth Plan, which underpins the new industrial policy support framework, envisages supporting internationalising companies to increase their competitiveness in new markets. On the whole, the EGP is not SME-oriented, as most measures are not dependent on the size of the enterprise. However, it contains specific measures for micro and SMEs under its "SME pillar" (Box 17.5).

According to the World Economic Forum's Global Competitiveness Index, cluster development in North Macedonia is perceived by private investors as being the most advanced of the WBT economies (WEF, 2017[48]). Currently there are 30 clusters in North Macedonia, spanning the information technology, automotive industry, textiles, fashion design, wine, agricultural mechanisation, wood processing and food processing sectors. The Ministry of Economy provides support for clusters in export promotion and foreign fairs (see Export promotion).

North Macedonia has also been implementing activities for promoting business linkages between SMEs and large domestic exporting firms, and encouraging technology transfers from multinational enterprises (MNEs). Some initiatives have been carried out through the support of international donors, such as the Macedonia Manufacturing Expo held at the end of 2016, whose aim is to integrate companies into global supply chains. The event was sponsored by the USAID Small Business Expansion Project, with 48 domestic suppliers and 16 foreign companies present as potential buyers.[24]

An earlier programme was the Supplier Development Pilot Programme which ran from 2014 to 2015.[25] This pilot programme aimed to identify and assess the current state of linkages between foreign direct investors and domestic enterprises and to equip suppliers with the information, skills and technical capacity to meet MNEs' requirements. The results and lessons learned were published in 2017 (World Bank, 2017[49]). Following the pilot, the Macedonia Automotive Backward Linkages Programme is expected to be carried out between 2015 and 2018.

North Macedonia informs SMEs about the programmes and policy initiatives available for facilitating their integration into global value chains. It also raises awareness of the potential of participating in global value chains through the websites of Invest Macedonia and the Ministry of Economy. Moreover, all companies within business associations and chambers of commerce are notified regularly by e-mail about ongoing activities and programmes.

Promoting the use of e-commerce

E-commerce is still in its early stages in North Macedonia – even so, of the six WBT economies for which data were available in 2018, North Macedonia had the second highest percentage of individuals purchasing online, at 25% (in the last 12 months preceding the survey) , though it still lagged behind the EU average (60%) (Eurostat, 2018[10]). However, at 3% it had the lowest rate of SMEs selling on line of all five WBT economies for which data were available in 2016 (latest data available) – well below the EU average of 18%[26] (Eurostat, 2018[10]). Consumers in North Macedonia lack full access to innovative payment systems, although they can use PayPal to send funds.

The Ministry of Information Society and Administration (MIOA) is responsible for raising awareness of and promoting e-commerce. Currently, it has a website offering practical information on e-commerce, covering national legal regulations, tips for engaging in e-commerce for both consumers and merchants, and links to several active e-stores in North Macedonia.[27] However, there is no strategic framework or ongoing initiative beyond this.

Between 2013 and 2014 North Macedonia had a programme that offered vouchers for SMEs looking to develop e-commerce websites – this government programme supported 31 e-stores. Since then, there have been no further programmes targeting uptake of e-commerce. Meanwhile, the private sector has moved forward in catalysing e-commerce, with the eCommerce Association of North Macedonia offering education and training, networking events, market information, and advocacy and lobbying services for its members.[28] It has a graduated membership fee according to company size, making the services accessible for smaller enterprises.

North Macedonia’s legal framework for e-commerce is the most fully developed in the region in terms of alignment with the EU framework, following a gap analysis and consequent amendments over 2010-14 (OECD, 2018[6]). However, there is still room to update its legal framework for consumer protection to harmonise it more fully with that of the EU (OECD, 2018[6]).

The way forward for Dimension 10

Taking the above developments into consideration, North Macedonia can further improve its efforts to support the internationalisation of SMEs through the following measures:

- **Develop consistent and targeted export support programmes** focused on capacity building to ensure more SMEs become ready to export. Monitoring practices should increase their focus on assessing the actual impact and effectiveness of these programmes.
- **Continue to develop programmes building on the cluster mapping activity and supplier development pilot programme**. Given the limited funds available, the government could focus on leveraging its networking capabilities to offer

centralised platforms for the clusters identified from the mapping activity and encourage investor after-care that ensures knowledge spill-overs from MNEs.

- **Solidify the framework for e-commerce and revise schemes to support the uptake of e-commerce**. North Macedonia could focus on building the technological capacities of SMEs that may be inclined to engage in e-commerce. As a first step, it could aim to integrate digital processes into existing business models to improve the operational efficiency of SMEs: this can be achieved by offering grants to assist SMEs in technological upgrading, attending training workshops, and accessing consultancy services.

Conclusions

North Macedonia's progress in implementing the Small Business Act since the 2016 assessment has been slow, partially due to the pre-electoral period spanning to the end of 2016, as well as the delays experienced in forming a government in 2017. It was only in mid-2017 that SME policy planning and implementation took off again.

In spite of these adverse conditions, North Macedonia still boasts one of most varied and developed SME support services network in the whole region – one which is receiving an increasing amount of earmarked funding, through, most notably, the APPRM and the Fund for Innovation. Following the adoption of the SME Strategy in 2018, it is expected that the design and delivery of support measures will move away from being ad hoc and become more targeted, addressing enterprises' most pressing needs.

Notes

[1] The WBT region refers to the six pre-accession Western Balkan economies (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) and Turkey. Unless otherwise specified, reference to the "region" in this publication implies these seven economies.

[2] The Pržino Agreement was a political agreement struck between the four main political parties in North Macedonia on 15 July 2015, mediated by the EU. This agreement built on the 2 June (2015) accord and included the return to parliament of the Social Democrat Union of Macedonia party, the organisation of a caretaker government preparing elections and the appointment of a special prosecutor to investigate the issues surrounding or arising from the interception of communications. The Pržino Agreement enabled the political deadlock that persisted in North Macedonia in the first half of 2015 to be overcome.

[3] In EU countries, SME envoys are appointed by the national government to report on the uptake of the SBA and to promote SMEs' interests through government bodies. These SME envoys do not exist in pre-accession countries.

[4] Amendments published in the Official Gazette of the Republic of Macedonia 34/2006, 126/2006, 84/2007, 47/2011, 79/2013, 164/2013, 29/2014, 98/2015 and 192/2015.

[5] A legal entity has legal capacity to enter into agreements or contracts, assume obligations, incur and pay debts, sue and be sued in its own right, and to be held responsible for its actions. It can take several forms such as an association, corporation, partnership, proprietorship, trust or individual that has legal standing in the eyes of the law.

[6] https://ener.gov.mk/

[7] The portal referred to is the Nextsense Interoperability Platform: https://www.nextsense.com/interoperability-platform.nspx.

8 Except companies that provide banking, financial, and insurance services, as well as services in the field of games of chance and entertainment games.

[9] NBRM Decision on amending the decision on credit risk management, published in the Official Gazette of the Republic of Macedonia No. 223/15.

[10] NBRM Strategic Plans, see for example the Strategic Plan of the National Bank of the Republic of North Macedonia 2019-2021 (NBRM, 2018[59]).

[11] This includes indexed loans.

[12] NBRM Financial Stability Indicators.

[13] NBRM banking system indicators on credit exposure.

[14] IMF Financial Access Survey.

[15] S&P's Financial Literacy Survey covers more than 140 countries, asking the population about four basic financial concepts. Further information can be found here: http://gflec.org/initiatives/sp-global-finlit-survey/.

[16] The scope now covers: calibration laboratories, testing laboratories (excluding medical laboratories), certification bodies (products), certification bodies (management systems) and inspection bodies.

[17] Smart specialisation originated in the EU as a concept for stimulating innovation driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services – and finally economic growth. Human capital, knowledge dissemination and transfer, as well as support to entrepreneurship are all key elements in successful implementation of smart specialisation strategies. For more information, please see Chapter 12 on enterprise skills and Box 13.1 in Chapter 13 on innovation policy for SMEs.

[18] The current SME strategy incorporates the same measures for export promotion as in the Export Strategy which was phased out in 2015.

[19] These publications were made possible through funding from USAID and GIZ.

[20] In particular, it provides assistance to SMEs characterised by their ability to generate a certain amount of turnover and that have been identified as "fast-growing" by having increased both their number of employees and turnover by 20% in one year.

[21] According to the European Investment Bank, the Crimson Development Fund provides SMEs with numerous instruments (short-term working capital, term loans, revolving credit lines, and convertible debt) which can be combined and tailored to meet specific investments.

[22] The programmes will be led by the Ministry of Economy in partnership with the Agency for Foreign Investments and Export Promotion and other SME agencies (APPRM and others).

[23] The Fund for Innovation and Technological Development (FITD) will continue to support technological extension and absorption among SMEs via implementation of the Absorption of TT (technology extension) initiative.

[24] The event included direct business meetings between domestic and foreign companies, such as Siemens, Van Hool and Scoutbie.

[25] This programme was financed by the Competitive Industries and Innovation Support Program (a multi-donor trust fund).

[26] The Eurostat indicator refers to SMEs employing between 10 and 249 employees, but excluding those in the financial sector.

[27] This project was made possible through USAID funding. For more details, see the website at: www.e-trgovija.gov.mk.

[27] For more information, see the e-Commerce Association's website at: https://ecommerce.mk/en/home#home.

References

Assembly of the Republic of North Macedonia (2004), *ЗАКОН ЗА ТРГОВСКИТЕ [Law on Trade Companies]*, Ministry of Economy, Republic of Macedonia, http://www.economy.gov.mk/Upload/Documents/ZTD%20konsolidiiran.pdf (accessed on 14 September 2018). [24]

Bütüner, H. (2014), *Organized Industrial Zones in Turkey - SWOT*, Linked In, https://www.linkedin.com/pulse/20141020214614-114102137-organized-industrial-zones-in-turkey-swot/. [43]

Council of the European Union (2018), *Council Conclusions on Enlargement and Stabilisation and Association Process*, Council of the European Union, Brussels, https://www.consilium.europa.eu/media/35863/st10555-en18.pdf (accessed on 15 October 2018). [19]

DFID/FCO (2018), *Overseas Business Risk - Macedonia*, Department for Inernational Trade and Foreign and Commonwealth Office, UK Government, https://www.gov.uk/government/publications/overseas-business-risk-macedonia/overseas-business-risk-macedonia (accessed on 13 September 2018). [13]

DIN (2018), *SME Commission (KOMMIT)*, http://www.din.de/en/about-standards/benefits-for-the-private-sector/sme-commission-kommit. [38]

Early Warning Europe (2018), *Early Warning Europe website*, https://www.earlywarningeurope.eu/. [27]

EBRD (2018), *Transition Report 2018-19: Country Assessments*, European Bank for Reconstruction and Development, https://2018.tr-ebrd.com/downloads/ (accessed on 19 November 2018). [9]

EBRD (2017), *Country Assessments: FYR Macedonia*, Transition Report 2017-18: Sustaining Growth, European Bank for Reconstruction and Development, London, https://www.ebrd.com/documents/oce/pdf-transition-report-201718-fyr-macedonia.pdf. [50]

EBRD (2017), *Transition Report 2017-18: Country Assessments*, European Bank for Reconstruction and Development, http://2017.tr-ebrd.com/countries/ (accessed on 7 December 2018). [8]

EC (2018), *A Credible Enlargement Perspective for and Enhanced EU Engagement with the Western Balkans*, European Commission, https://eeas.europa.eu/regions/western-balkans/39711/credible-enlargement-perspective-and-enhanced-eu-engagement-western-balkans_en (accessed on 10 October 2018). [18]

EC (2018), *Annual Report on European SMEs 2017/2018: SMEs Growing Beyond Borders*, European Commission, Brussels, https://ec.europa.eu/docsroom/documents/32601/attachments/1/translations/en/renditions/native (accessed on 30 November 2018). [26]

EC (2018), "Commission assessment: Economic Reform Programme of the Former Yugoslav Republic of Macedonia (2018-2020)", *Commission Staff Working Document*, No. SWD 134 Final, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_the_former_yugoslav_republic_of_macedonia.pdf (accessed on 11 September 2018). [3]

EC (2018), *Economic Reform Programmes: Western Balkans and Turkey*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf (accessed on 15 October 2018). [11]

EC (2018), *eGovernment in the Former Yugoslav Republic of Macedonia*, European Commission, https://joinup.ec.europa.eu/sites/default/files/inline-files/eGovernment_in_FYROM_2018_0.pdf. [32]

EC (2018), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 2nd quarter 2018", *Technical Paper*, No. 026, European Commission, Brussels, https://ec.europa.eu/info/sites/info/files/economy-finance/tp026_en.pdf. [52]

EC (2018), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", *Technical Paper*, No. 028, European Commission, Brussels, http://dx.doi.org/10.2765/319761. [5]

EC (2018), "The Former Yugoslav Republic of Macedonia 2018 report", *Commission Staff Working Document*, No. SWD(2018) 154 final, European Commission, Strasbourg, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-the-former-yugoslav-republic-of-macedonia-report.pdf (accessed on 15 October 2018). [21]

EC (2018), *The Former Yugoslav Republic of Macedonia on its European Path*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near_factograph_the_former_yugoslav_republic_of_macedonia.pdf (accessed on 15 October 2018). [23]

EC (2018), *What is an SME?*, European Commission website, http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en (accessed on 13 September 2018). [25]

EC (2017), *Annual Report on European SMEs 2016/2017: Focus on Self-Employment*, European Commission, Brussels, https://ec.europa.eu/docsroom/documents/26563/attachments/1/translations/en/renditions/native. [51]

EC (2017), *Roadmap For a More United, Stronger and More Democratic Union*, European Commission, Brussels, https://ec.europa.eu/commission/sites/beta-political/files/roadmap-factsheet-tallinn_en.pdf (accessed on 29 November 2018). [58]

EC (2013), *Top 10 Most Burdensome EU Laws for Small and Medium-Sized Enterprises*, European Commission, http://europa.eu/rapid/press-release_MEMO-13-168_en.htm. [39]

EIB (2018), *The European Investment Bank in the Western Balkans*, European Investment Bank, Luxembourg, http://www.eib.org/attachments/country/the_eib_in_the_western_balkans_en.pdf. [53]

EIB (2016), *FYROM: Assessment of financing needs of SMEs in the Western Balkan countries*, European Investment Bank, Luxembourg, http://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_fyrom_en.pdf. [47]

ETF (forthcoming), *Skills Mismatch Measurement in the ETF Partner Countries: Country Report: North Macedonia*, European Training Foundation, Turin. [41]

European External Action Service (2016), *The Former Yugoslav Republic of Macedonia and the EU*, https://eeas.europa.eu/delegations/former-yugoslav-republic-macedonia_en/1457/The%20Former%20Yugoslav%20Republic%20of%20Macedonia%20and%20the%20EU (accessed on 15 October 2018). [22]

Eurostat (2018), *Digital Economy and Society (database)*, European Commission, https://ec.europa.eu/eurostat/web/digital-economy-and-society/data/database (accessed on 26 September 2018). [54]

Eurostat (2018), *Eurostat (database)*, European Commission, https://ec.europa.eu/eurostat/data/database (accessed on 14 September 2018). [10]

FITD (2018), *Co-Financed Grants for Newly Established Enterprises "Start-up" and "Spin-off"*, Fund for Innovations and Technical Development, http://www.fitr.mk/portfolio-item/co-financing-grants-for-start-up-spin-off-companies-and-innovations/?lang=en. [35]

GFLEC (2015), *S&P Global FinLit Survey*, https://gflec.org/initiatives/sp-global-finlit-survey/ (accessed on 13 February 2019). [36]

ILO (2018), *ILOSTAT*, International Labour Organization, Geneva, http://www.ilo.org/ilostat (accessed on 12 September 2018). [2]

Invest in Turkey (2018), *Investment Zones*, Investment Office, President of the Republic of Turkey, http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/SpecialInvestmentZones.aspx. [45]

KOSGEB (2014), *SME Strategy and Action Plan 2015-2018, Energy Efficient Industry*, KOSGEB, Ankara, http://enerjiverimlisanayi.com/en/icerik/projemiz/41. [44]

Ministry of Economy (2018), *Industrial Strategy with a Focus on the Manufacturing Sector: Draft for Consultation*, Ministry of Economy, Republic of North Macedonia, Skopje, https://konkurentnost.mk/wp-content/uploads/2018/06/IndustryStrategy17MayCLEAN.pdf (accessed on 30 October 2018). [42]

Ministry of Economy (2018), *National Small and Medium-Sized Enterprise Strategy (2018-2023)*, Ministry of Economy, Republic of North Macedonia, http://economy.gov.mk/Upload/Documents/Strategija%20za%20MSP%20-%20finalna%20verzija%2003%2004%202018%20.pdf. [29]

Ministry of Finance (2018), *Economic Reform Programme 2018-2020*, Ministry of Finance, Republic of Macedonia, Skopje, https://www.finance.gov.mk/files/Macedonia_ERP_2018.pdf (accessed on 15 October 2018). [12]

NBN (2018), *NBN website*, Bureau for Standardisation, Brussels, https://www.nbn.be/en. [37]

NBRM (2018), *Banking System Indictators (website)*, National Bank of the Republic of North Macedonia, http://www.nbrm.mk/ns-newsarticle-banking-system-indicators.nspx (accessed on 22 October 2018). [34]

NBRM (2018), *Strategic Plan of the National Bank of the Republic of Macedonia 2019-2021*, National Bank of the Republic of Macedonia, Skopje, http://www.nbrm.mk/content/Strategic-Plan-NBRM-2019-2021.pdf (accessed on 22 October 2018). [59]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, Competitiveness and Private Sector Development, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264298576-en. [6]

OECD (2017), *Monitoring Report: The Principles of Public Administration: The Former Yugoslav Republic of Macedonia*, OECD/SIGMA, Paris, http://www.sigmaweb.org/publications/Monitoring-Report-2017-the-former-Yugoslav-Republic-of-Macedonia.pdf. [30]

OECD (2017), *Monitoring Report: The Principles of Public Administration: Turkey*, OECD/SIGMA, Paris, http://www.sigmaweb.org/publications/Monitoring-Report-2017-Turkey.pdf. [31]

OECD (2016), *Competitiveness in South East Europe: A Policy Outlook*, Competitiveness and Private Sector Development, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264250529-en. [28]

OECD (2013), *Assessment of the National Innovation System of the Former Yugoslav Republic of Macedona: Report in Support of the Formulation of a National Innovation Strategy*, OECD, Paris, https://www.oecd.org/south-east-europe/programme/FYROM%20Innovation%20System_Assessment_for%20publication.pdf (accessed on 24 October 2018). [55]

RAS (2017), *Create Life: Public Call for the Implementation of Standardised Mentoring Service*, Development Agency of Serbia, Belgrade, http://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-the-implementation-of-standardised-mentoring-service (accessed on 31 August 2018). [33]

Republic of North Macedonia (2016), *Competitiveness Strategy and Action Plan of the Republic of Macedonia 2016-2020*, Republic of Macedonia, Skopje, http://www.pintoconsulting.de/Images/References/Competitiveness%20Strategy%20Action%20Plan%202016-2020%20Macedonia.pdf. [40]

Sanfey, P. and J. Milatovic (2018), *The Western Balkans in Transition: Diagnosing the Constraints on the Path to a Sustainable Market Economy*, European Bank for Reconstruction and Development , London, https://www.ebrd.com/documents/eapa/western-balkans-summit-2018-diagnostic-paper.pdf. [56]

The World Bank (2017), "Doing Business 2018: FYR Macedonia continues to be among the top ranked economies", *Press Release*, World Bank, http://www.worldbank.org/en/news/press-release/2017/10/31/doing-business-2018-fyr-macedonia-continues-to-be-among-top-ranked-economies (accessed on 13 September 2018). [57]

Transparency International (2018), *Corruption Perceptions Index 2017*, Transparency International, http://www.transparency.org/news/feature/corruption_perceptions_index_2017 (accessed on 13 September 2018). [14]

Vostroknutova, E. and M. Hernandez (2018), "Vulnerabilities slow growth", *Western Balkans Regular Economic Report*, No. 13, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/304141523592698571/Vulnerabilities-slow-growth (accessed on 11 September 2018). [4]

WEF (2017), *The Global Competitiveness Index dataset 2007-2017*, World Economic Forum, Geneva, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/ (accessed on 24 July 2018). [48]

World Bank (2019), *Business Reforms in Macedonia, FYR*, Doing Business website, http://www.doingbusiness.org/Reforms/Overview/Economy/macedonia-fyr (accessed on 13 September 2018). [17]

World Bank (2018), *Reforms Since Doing Business 2005*, Doing Business website, http://www.doingbusiness.org/en/reforms/reforms-count (accessed on 15 November 2018). [16]

World Bank (2018), *Training for Reform: Economy Profile: Macedonia, FYR*, Doing Business 2019, World Bank, Washington, DC, http://www.doingbusiness.org/content/dam/doingBusiness/country/m/macedonia-fyr/MKD.pdf (accessed on 15 November 2018). [15]

World Bank (2018), *World Bank Open Data (database)*, https://data.worldbank.org/ (accessed on 12 September 2018). [1]

World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*, World Bank, Washington, DC, http://dx.doi.org/10.1596/978-1-4648-1146-3. [46]

World Bank (2017), *FYR Macedonia Supplier Development Pilot Programme Toolkit: Materials and Lessons Learned*, World Bank, Washington, DC, https://openknowledge.worldbank.org/bitstream/handle/10986/29428/114819.pdf?sequence=4&isAllowed=y (accessed on 24 October 2018). [49]

World Bank/WIIW (2018), *SEE Jobs Gateway*, World Bank/Vienna Institute for International Economic Studies, http://www.seejobsgateway.net (accessed on 12 September 2018). [7]

Further reading

EC (2018), *EntreComp: The Entrepreneurship Competence Framework*, European Commission, Brussels, http://publications.jrc.ec.europa.eu/repository/bitstream/JRC101581/lfna27939enn.pdf.

EC (2018), *DigComp2.1: The Digital Competence Framework for Citizens*, European Commission, Brussels, http://publications.jrc.ec.europa.eu/repository/bitstream/JRC106281/web-digcomp2.1pdf_(online).pdf.

OECD et al. (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/9789264254473-en.

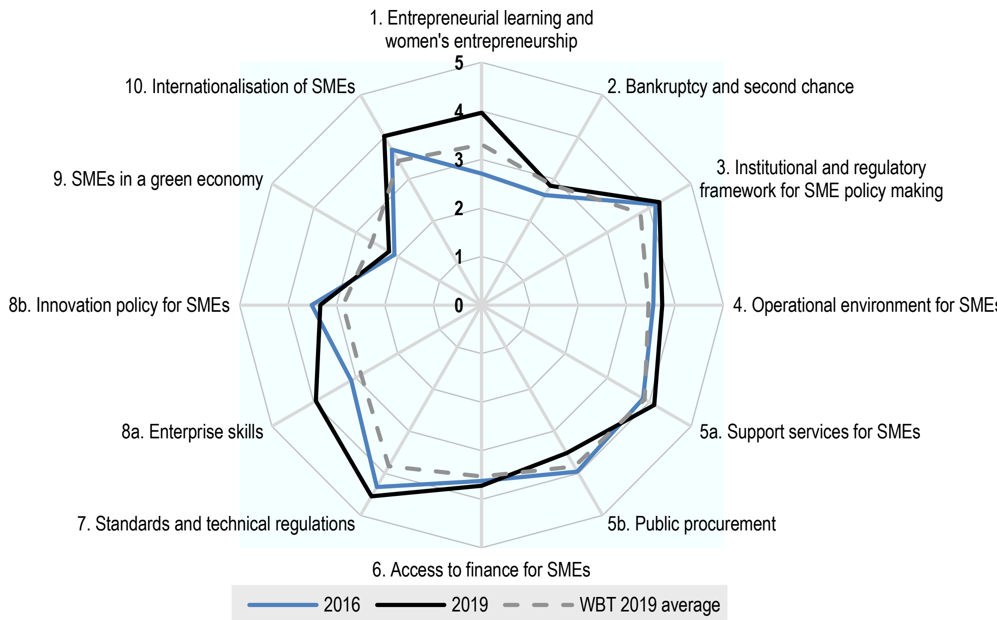
Chapter 18. Serbia: Small Business Act profile

This chapter covers in depth the progress made by Serbia in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Serbia's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the Serbian economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 18.1. Small Business Act scores for Serbia (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Serbia has made progress in implementing the Small Business Act (SBA) since publication of the previous report – the SME Policy Index: Western Balkans and Turkey 2016 (Figure 18.1). With a well-developed approach to SME policy, Serbia has rolled out a number of measures and programmes during the assessment period to stimulate private sector development. The main achievements that have helped Serbia boost its performance are as follows:

The institutional framework has been strengthened, enabling greater consideration of SMEs' interests in policy making. The Council for SMEs, Entrepreneurship and Competitiveness became operational in November 2017, two years after it had formally been established as an occasional working body. In addition to monitoring and co-ordinating the implementation of the SME Development Strategy 2015-20, it also provides suggestions and initiates customised programmes for SMEs. It is expected that the council will give a boost to the embedding of the "think small first" principle when developing new policies.

Starting a business has become easier, faster and cheaper. Following a comprehensive business reform, the company registration process has been further simplified. The improved operational efficiency of the Serbian Business Registers Agency has played a pivotal role in bringing down the number of days and procedures to start a business, from 11.5 days and 6 procedures in 2015 to 5.5 days and 5 procedures in 2018.

Support measures for SMEs have gained traction. The Ministry of Economy of Serbia launched the Year of Entrepreneurship in 2016, which has since grown into a Decade of Entrepreneurship. As part of this it has substantially enhanced overall financial and non-financial support to SMEs, and increased the scope of business support services to include a wider range of customised programmes. The uptake of these services by SMEs is remarkably high.

The amount of loans in local currency has increased, enhancing SMEs' access to bank finance. Thanks to the partial implementation of the National Bank's Dinarisation strategy, as well as greater macroeconomic stability, the interest differential of local currency loans has begun to reduce. This development has seen SME lending accelerate, and the overall liquidity of the banking system improve.

Rapid strides have been made in improving the innovation infrastructure linking business with academia. The Belgrade Science and Technology Park has become fully operational, and currently houses a large number of start-ups. Similar institutions are being constructed in other economic hubs, such as Novi Sad and Nis. The government has moved beyond relying on international donors to support innovation and allocated significant public funds for this purpose, including EUR 2 million to establish smaller regional innovation centres across the country.

Entrepreneurial learning is better mainstreamed across the curriculum. In lower secondary education, including vocational education and training schools, entrepreneurship has been introduced as a separate subject, supported by a multitude of practice-based activities. In higher education, university curricula have been modernised, and new start-up development and intellectual property management courses have been developed.

Priority areas

This report identifies six priority areas in which Serbia should intensify its efforts:

- **Make better use of evaluation in the policy cycle**. Serbia needs to start systematically evaluating its interventions under its SME Development Strategy to ensure optimal use of scarce public resources in the long term. In addition, it needs to assess the impacts of various policies to see whether SMEs are disproportionately affected or disadvantaged compared to larger companies.
- **Diversify sources of finance, especially for micro and small enterprises.** The legal and regulatory framework in Serbia is preventing a fully fledged microfinance industry from emerging. Legislation should be introduced to enable lending by microfinance institutions, which would operate in under-served areas and provide more appropriate credit products for micro and small enterprises.
- **Focus on raising awareness and providing guidance to SMEs in adopting environmentally sound practices**. Activities aimed at raising SMEs' awareness of the benefits and opportunities offered by going green should be designed and implemented. To ensure complementarity among the various support measures aimed at SMEs, the Development Agency of Serbia (RAS) – in consultation with the Ministry of Environment – could assume the task of co-ordinating the implementation of these activities.
- **Roll out supplier development programmes.** The current financial schemes offered by RAS fall short of truly helping SMEs integrate into European and

global value chains. New support programmes need to be developed that underpin the linkages between SMEs and multinational enterprises (MNEs). These should include matchmaking services and targeted advice to SMEs on upgrading their production process to better cater for MNEs' supply needs.

- **Design policy tools to reduce cultural stigma around failed entrepreneurs, and to promote a second chance.** Appropriate legal measures distinguishing between honest and fraudulent bankruptcies should be complemented with cultural campaigns, promoting a fresh start and a culture that values failure.
- **Improve SME access to public procurement**. Serbia still lacks a fully fledged electronic procurement system and online portal. SMEs are disproportionately affected by not being able to submit tenders or request to participate through electronic means.

Economic context and role of SMEs

Economic overview

Serbia is an upper-middle income economy, with a gross domestic product (GDP) of USD 14 049 per capita in purchasing power parity (PPP) terms in 2017 (World Bank, 2018[1]). With a population of 7 million, Serbia has the largest domestic market in the Western Balkans. Its economy is consumption-driven and dominated by services, whose contribution to value added amounted to 50.0% of GDP in 2017. Moreover, the services sector employs 56.6% of the total labour force (World Bank, 2018[1]; ILO, 2018[2]). The second largest sector in terms of value added is industry, contributing 26.4% of GDP, whereas agriculture, forestry and fishing generated only 6.0% of GDP (World Bank, 2018[1]). Despite the modest contribution to value added, agriculture accounted for 19.0% of employment, while the industrial sector employed 24.4% of the workforce in 2017 (ILO, 2018[2]).

Since 2016, GDP growth has been stable – at around 2.5% – even though it declined to 2% in 2017, due to the disruption of energy production and declining agricultural output caused by the weather conditions (severe winter and a drought). Over the short to medium term economic growth is expected to pick up, driven by increased investment and the recovery of consumption as wages increase and the fiscal consolidation programme gradually expires. GDP growth reached 4.9% in the first quarter of 2018 and 4.8% in the second quarter, boosted mainly by household final consumption reaching the highest rate of growth since before the 2008 global economic crisis (increasing by 3.1%) (EC, 2018[3]).This growth was equally fuelled by public consumption, which accelerated from 2.3% in the first quarter to 5.3% in the second quarter of 2018 (EC, 2018[3]).

Economic activity continues to be supported by strong export expansion and rising investment, including foreign direct investment (FDI) (EC, 2018[3]). FDI inflows have reached pre-crisis levels and are much more diversified, directed mainly toward the manufacturing sector. Nevertheless, foreign investments have benefited from a considerable amount of state aid and have remained technologically less sophisticated (EC, 2018[3]). The EU's contribution to total FDI in Serbia was 66% in 2016.

Export and import amounts have both grown steadily since 2013. Electrical machinery, vehicles and machinery (including computers) are Serbia’s main export products. Among the top ten export products, iron and steel represented the fastest growing export category – an increase in value of 57% from 2016 to 2017 (World Bank, 2018[4]). The EU is Serbia's biggest trading partner. Its current account deficit had been declining, but in 2017 it almost doubled due to higher imports of energy and consumer goods (World Bank, 2018[5]) (Table 18.1). The net FDI increase of 27.1% was, however, more than enough to finance the current account deficit, and contribute positively to the balance of payments (World Bank, 2018[5]).

Inflation has been stable since 2014 and has stayed close to the 3% target set by the Serbian Central Bank. It peaked at 4% in April 2017 and then fell to 3% in December 2017 (World Bank, 2018[5]). The pick-up in inflation was driven by rising food and energy prices, while core inflation (excluding food, energy, alcohol and tobacco) remained broadly unchanged (EC, 2018[3]). Due to stable inflation expectations in 2018, the Central Bank has kept its key policy rate on hold at 3% (EC, 2018[3]).

For the first time in almost a decade, the government fiscal balance saw a surplus of 1.2% of GDP in 2017 as a result of successful fiscal consolidation. Strong revenue collection, spending controls and under-execution of public investment were the major elements in the recent consolidation (World Bank, 2018[5]). Due to the fiscal surplus and a favourable dollar/euro exchange rate, a sharp decline of public debt was recorded in 2017 (from 74.7% in 2015 to 61.6% of GDP). The trend has continued in 2018, falling to 59.6% of GDP in July 2018 (Ministry of Finance, 2018[6]). A similar trend was observed with external debt, which has been on a constant downward trend since 2015 (Table 18.1).

However, significant contingent fiscal risks still stem from large, unreformed state-owned enterprises, while public administration "rightsizing" is progressing slowly (EBRD, 2017[7]). In addition to these risks, the absence of comprehensive and efficient state aid control puts the sustainability of the positive budget balance at risk. This is especially important in the context of FDI, since there has been no comprehensive cost-benefit analysis of the policy of offering substantial subsidies to attract FDI (EC, 2018[8]).

Despite the slower GDP growth in 2017, unemployment fell from 15.3% in 2016 to 13.5% (World Bank, 2018[5]). Serbia's unemployment rate remains one of the lowest in the Western Balkans and Turkey (WBT) region,[1] although it is still relatively high compared to the EU (7.6%) and OECD (5.8%) averages in 2017 (OECD, 2018[9]; OECD, 2018[10]). With 2.9 million people employed in the second quarter of 2018, total employment reached its highest level since 2014, in spite of a constantly decreasing population (EC, 2018[3]). Even so, informal employment, most of it in agriculture, remained high at 21% of the total (EC, 2018[3]). Serbia's labour force participation rate still remains low, at 53.5%, driven up by a high youth unemployment rate (40% of the labour force aged 15-24) and a high share of those who are not in education, employment, or training (17.6% in 2017) (OECD, 2018[10]). Skills mismatches represent a key obstacle to young people entering the labour force, while low skill levels hinder the chances of the adult population (aged 25-54) of finding decent jobs (EC, 2018[8]).

Table 18.1. Serbia: Main macroeconomic indicators (2013-18)

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth	% year-on-year	2.6	-1.8	0.8	3.3	2	3.3 f
Inflation	% average	7.9	2.1	1.4	1.1	3.1	1.7 f
Government balance	% of GDP	-5.5	-6.6	-3.5	-1.2	1.1	0.6 f
Current account balance	% of GDP	-6.1	-6	-3.5	-2.9	-5.2	-5.5 p
Exchange rate RSD/EUR[1]	Value	113.1	117.2	120.7	123.1	121.4	118.2*
Exports of goods and services[1]	% of GDP	41.2	43.4	43.8	47.2	49.3	52.4 a
Imports of goods and services	% of GDP	51.9	54.2	52.9	54.2	57.5	61.5 a
Net FDI[1]	% of GDP	3.8	3.7	5.1	5.2	6.2	6.8 a
External debt	% of GDP	74.8	77.1	78.3	76.5	69.5	..
Gross international reserves	% of GDP	8.7	7.7	7.7	7.2	6.2	6.4 a
Unemployment[1]	% of total active population	22.1	19.2	17.7	15.3	13.5	12.1 f
National GDP	USD billion	45.5	44.2	37.2	38.3	41.4	..

Note: RSD: Serbian dinar; [f] forecast; [a] average of 1st and 2nd quarter; [p] projected; * average of 1st, 2nd and 3rd quarter.

Sources: [1] EC (2018[3]), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", https://ec.europa.eu/info/publications/economy-finance/eu-candidate-countries-potential-candidates-economic-quarterly-cceq-3rd-quarter-2018_en;

EBRD (2018[11]), *Transition Report 2018-19*, https://2018.tr-ebrd.com/downloads/;
Eurostat (2018[12]), *National Accounts (Including GDP) (dataset)*, https://ec.europa.eu/eurostat/web/national-accounts/data/database.

Business environment trends

Serbia's business environment has slightly improved since the last SBA assessment, mainly due to new regulatory reforms to reduce the complexity and costs of doing business. A legal framework has been established which regulates the administrative and parafiscal burden on business entities. Moreover, at the time of writing, the Law on Charges for the Use of Public Goods was being drafted, which aims to regulate various issues relevant to determining and paying charges.

To improve enterprises' access to better infrastructure, public-private partnerships (PPPs) are becoming increasingly popular and the preferred option for implementing local and national infrastructure projects, as underlined in Serbia's Economic Reform Programme (Box 18.1). By the end of 2017, 56 PPP project proposals had been approved – mainly local projects in the field of urban and suburban passenger transport and heat and electricity generation using renewable energy sources.

In addition, Serbia has endeavoured to improve the efficiency of public enterprises, by proceeding with the announced debt restructuring of the natural gas company, Srbijagas, and implementing the optimisation plan for the public power utility enterprise, Elektroprivreda Srbije (EPS). As well as introducing voluntary termination of employment with severance payments, the optimisation plan had reduced the number of employees in EPS by 2 987 at the end of 2017.

Despite these positive developments, the business environment in Serbia is still hampered by a number of challenges, including the costly, unpredictable and non-transparent system of parafiscal charges; red tape; and difficult access to finance, especially for SMEs (EC, 2018[8]). The lack of any financial alternatives to bank loans especially hampers SMEs' access to finance. The planned improved regulation of financial markets to provide additional financing instruments keeps being delayed by the Serbian Government. (For more information on key financial indicators in Serbia, see The OECD Scoreboard Indicators) Unfair competition from state-owned enterprises and the informal sector have also complicated doing business in Serbia.

Another problem that hampers SMEs' capacity to do business is corruption. Quantitative data from Transparency International supports this finding. Serbia scores 39 in Transparency International's 2018 *Corruption Perceptions Index*, which positions it as the 87th least corrupt economy out of 180 countries and territories (Transparency International, 2019[13]).

In the interviews conducted with SME owners and entrepreneurs in Serbia as part of the SBA assessment,[2] interviewees underlined that the operational environment did not allow SMEs to take advantage of market opportunities, or to compete with larger firms on an equal footing. Unequal governmental support for domestic versus foreign enterprises is also identified as one of the impediments for doing business. It is estimated that foreign companies receive several times more subsidies than domestic SMEs, and this is only partially justified by the higher productivity of FDI (EC, 2018[8]).

Box 18.1. Serbia's Economic Reform Programmes

Since 2015, all EU candidate countries and potential candidates are obliged to prepare Economic Reform Programmes (ERPs). ERPs prepare the enlargement countries for their future participation in the EU's economic policy co-ordination procedures. They also play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation.

The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda. The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

1. public finance management
2. energy and transport markets
3. sectoral development
4. business environment and reduction of the informal economy
5. trade-related reform
6. education and skills
7. employment and labour markets
8. social inclusion, poverty reduction and equal opportunities.

The European Commission and the European Central Bank then assess these seven programmes. This forms the basis for a multilateral economic policy dialogue involving the enlargement countries, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include country-specific policy guidance reflecting the most pressing economic reform needs.

The findings of the Small Business Act assessment for the Western Balkans and Turkey provide the analytical background and guidance to the seven EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

Source: EC (2018[14]), *Economic Reform Programmes: Western Balkans and Turkey* https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf.

In the World Bank's *Doing Business 2018* report, Serbia ranked 43rd out of 190 countries, up four places from the previous assessment. In particular, Serbia is among the 10 economies that have implemented the most regulatory reforms for reducing the complexity and cost of business since 2015. The main changes that have occurred are summarised in Table 18.2 (World Bank, 2017[15]).

Table 18.2. Recent business reforms in Serbia

	Reforms making it easier to do business	Reforms making it harder to do business
Doing Business 2018	**Starting a business** has been made simpler by reducing the signature certification fee and increasing the efficiency of the registry, reducing the time for business registration. **Registering property** has become more reliable by implementing a geographic information system. **Enforcing contracts has been made easier** by adopting a new enforcement law that broadens and clarifies the responsibilities of enforcement agents as well as the powers of the courts during the enforcement process.	None
Doing Business 2017	**Starting a business** was simplified by reducing the time to register a company. **Dealing with construction permits** was speeded up by implementing an online system and streamlining the process of obtaining technical conditions for building permits. **Registering property:** the property transfer process was simplified by introducing effective time limits.	None

Note: Only reforms which had either a positive or a negative impact on conducting business were considered.
Source: World Bank (2018[16]), *Business Reforms in Serbia*, www.doingbusiness.org/en/reforms/overview/economy/serbia.

EU accession process

Serbia was granted EU membership candidate status in March 2012. The Stabilisation and Association Agreement came into force in September 2013. Since January 2014, Serbia has been in accession negotiations, and as of October 2018, it had opened 14 out of 35 negotiating chapters, two of which had been provisionally closed.

Chapter 20, Enterprise and Industrial Policy, is one of those negotiating chapters, and was officially opened by Serbia on 27 February 2017. The chapter aims to strengthen competitiveness, facilitate structural change and encourage a business-friendly environment. Implementing the ten SBA principles is one of the requirements of this chapter. The findings and recommendations published in the *SME Policy Index: Western Balkans and Turkey 2019* provide the monitoring and guidance for Serbia to prepare and meet the requirements of Chapter 20.

In the latest EU progress report, Serbia's economy is assessed as being moderately prepared in terms of enterprise and industrial policy (EC, 2018[18]). It acknowledges progress in promoting entrepreneurship and facilitating access to finance for SMEs; this was also highlighted by the previous SME Policy Index findings (OECD, 2016[19]). Going forward, it calls on Serbia to:

- develop a comprehensive industrial policy based on EU principles and use the findings of the smart specialisation exercise[3]
- make efforts to improve the predictability of the business environment, with the emphasis on improving the issue of unpredictable parafiscal charges.

In February 2018, renewed momentum for EU accession of the Western Balkans economies was heralded by a statement from the European Commission seeking "a credible enlargement perspective for an enhanced EU engagement with the Western Balkans" (EC, 2018[20]). The Commission launched its new Western Balkans accession strategy, which details six flagship reform initiatives. These initiatives include addressing key issues on the rule of law, security and migration, increased connectivity and neighbourly relations. They also incorporate important elements that support SME policy and Chapter 20 preparedness in the *acquis*, namely socio-economic development and a digital agenda.

EU financial support

Serbia and Serbian enterprises benefit from a wide range of EU-funded support programmes. In fact, the EU is the largest provider of financial assistance to Serbia, with a total of EUR 2.5 billion earmarked for the period of 2007-20 under the EU pre-accession funds. About 9% of this amount has been allocated solely to strengthening private sector development.

Funding is also available to support SMEs, including raising capital for start-ups, providing subsidised loans and guarantees, as well as fostering their skills and financial education. These are offered and co-ordinated through the European Investment Fund, the Western Balkans Investment Framework, the European Investment Bank, the European Bank for Reconstruction and Development, and the Western Balkans Enterprise Development and Innovation Facility. They are implemented through various programmes, such as COSME (Competitiveness of Enterprises and Small and Medium-sized Enterprises), InnovFin (Horizon 2020), the Programme for Employment and Social Innovation, the European Structural and Investment Funds, and the SME Instrument.

Since 1999, European Investment Bank loans to Serbia have totalled EUR 5 billion, whereas close to EUR 117 million in grants have been disbursed under the Western Balkans Investment Framework, leveraging investments estimated at EUR 2.25 billion.

SMEs in the national economy

There are two definitions of small and medium-sized enterprises in Serbia: the SME definition in the Law on Accounting and Auditing, used for accounting purposes and financial reporting; and the definition in the Decree on Rules for Granting of State Aid, used for granting state aid (Table 18.3).

For the purposes of financial reporting as practised in the EU, Serbia uses a definition in Law on Accounting and Auditing. Its categorisation thresholds (turnover and balance sheet) differ from those in the EU definition, but the definition is harmonised with relevant EU directives from the field of corporate accounting and legal auditing. It is adapted to the specific context of the economy concerning financial criteria. Employment criteria are the same as in the EU definition.

The SME definition in the Decree on Rules for State Aid Granting is of great practical importance as it is used to allocate state support to SMEs. It is aligned with the EU definition for small and medium-sized enterprises, including provisions related to linked and partnership enterprises. Differentiation between the micro enterprise and small enterprise categories is still needed to ensure full harmonisation.

Table 18.3. Definition of micro, small and medium-sized enterprises in Serbia

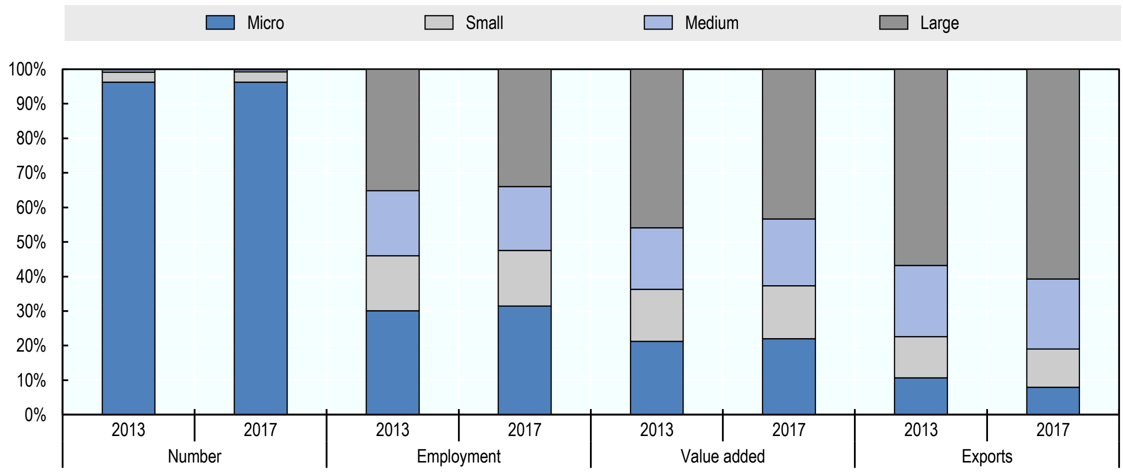
	EU definition	Law on Accounting and Auditing	Regulation on Rules for State Aid Granting
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	< 10 employees < 0.7 million operating revenues < EUR 0.35 million circulating assets	Not applicable
Small	< 50 employees ≤ EUR 10 million turnover or 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

Sources: Republic of Serbia (2013[21]), *Law on Accounting*, www.paragraf.rs/propisi/zakon_o_racunovodstvu.html; Republic of Serbia (2014[22]), *Regulation on Rules for State Aid Granting*, www.mfin.gov.rs/UserFiles/File/drzavna%20pomoc/Uredba%20o%20pravilima%20za%20dodelu%20drzavne%20pomoci.pdf.

In 2017 SMEs dominated the economy's business sector, accounting for 357 234 enterprises and 99.8% of the total business population. The vast majority were micro enterprises (96.2%) (Figure 18.2). SMEs in Serbia employed nearly 65% of the total business labour force, while on average SMEs generated an estimated 54.1% of the business sector's value added in 2017. This is the lowest share in the WBT region – similar to Turkey – as also noted in the previous assessment. SME contribution to overall exports has decreased marginally, from 43.2% to 39.3%, mainly due to a decline in the share of micro enterprises in exports – from 10.8% in 2013 to 7.9% in 2017 (Figure 18.2)

The share of businesses owned by women in Serbia is not known, as the Statistical Agency of Serbia does not collect data on this indicator as part of its structural business statistics.

Figure 18.2. Business demography indicators in Serbia (2013 and 2017)



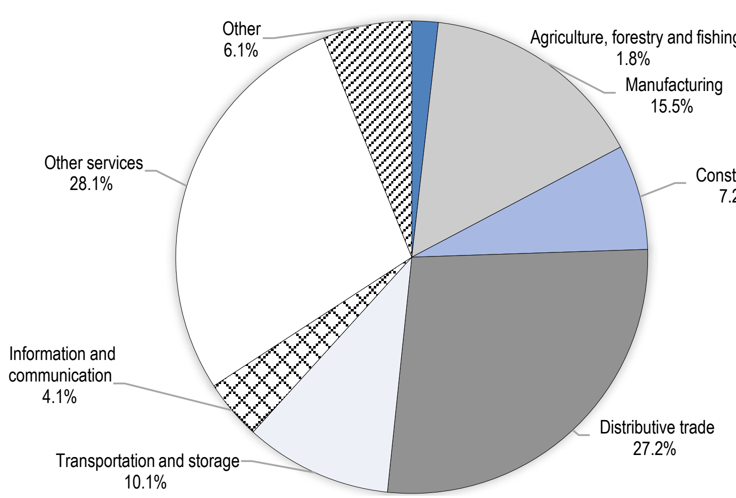
Source: Statistical Office of Serbia; Ministry of Economy (2018[23]), Report on Small and Medium-Sized Enterprises in Serbia for 2017, SME and Entrepreneurship Department, Ministry of Economy of the Republic of Serbia.

StatLink http://dx.doi.org/10.1787/888933937926

When it comes to the sectoral distribution of SMEs in Serbia, distributive trade accounts for 27.2% of the total SME population, whereas 15.5% of all SMEs in Serbia operate in the manufacturing sector (Figure 18.3). The share of SMEs in both sectors has decreased since the last assessment, from 34.0% to 27.2% in distributive trade and from 18.0% to 15.5% in manufacturing. This indicates a recent shift of SME activities to the services sector. Ten percent of Serbian SMEs are active in the transportation and storage sectors, a share that has slightly decreased since the previous assessment (12.0%).

The distributive trade sector, manufacturing and services dominate the Serbian business scene – not only for the number of SMEs operating in them, but also for their contribution to total employment (75.8%) and value added (73.2%) (Ministry of Economy, 2018[23]).

Figure 18.3. Sectoral distribution of SMEs in Serbia (2017)



Note: The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Source: Ministry of Economy (2018[23]), *Report on Small and Medium-Sized Enterprises in Serbia for 2017,* SME and Entrepreneurship Department, Ministry of Economy of the Republic of Serbia.

Serbia is characterised by a highly concentrated territorial distribution of SMEs. SMEs are primarily clustered in and around the economy's main commercial hubs, especially Belgrade, which accounted for around one-third of all SMEs, one-fifth of all SME employment, and one-quarter of total value added generated by the SMEs in the whole economy in 2017 (Table 18.4) (Ministry of Economy, 2018[23]).

Table 18.4. Number of registered companies in Serbia by enterprise size and region (2017)

Region	Enterprise size, by number of persons employed					Share of total number of enterprises
	0-9	10-49	50-249	250+	Total	
Belgrade	111 717	4 080	866	204	116 867	32.6%
Vojvodina	87 182	2 795	642	153	90 772	25.3%
Šumadija and West Serbia	89 648	2 381	541	93	92 663	26.0%
South and East Serbia=	55 734	1 327	323	71	57 455	16.1%
Serbia	**344 281**	**10 583**	**2 372**	**521**	**357 757**	**100 %**

Source: Ministry of Economy (2018[23]), *Report on Small and Medium-Sized Enterprises in Serbia for 2017,* SME and Entrepreneurship Department, Ministry of Economy of the Republic of Serbia.

Assessment and recommendations

Process

The Small Business Act (SBA) assessment cycle was launched in Serbia with a kick-off meeting in Belgrade on 28 September 2017. The meeting was organised in co-operation with the Ministry of Economy, which acts as the SBA Co-ordinator, nominated by the European Commission, and which is responsible for implementing the SBA principles.[4]

During the meeting, the new assessment framework (see Annex A for details) was presented to line ministries and public institutions so they could contribute to the information collection process. The two documents making up the assessment framework, the questionnaire and statistical data sheet, were explained in depth to the participants, directing particular attention to the newly added questions and indicators.

Following the launch event, the Directorate for Small and Medium-sized Enterprises and Entrepreneurship under the Ministry of Economy distributed the questionnaire to the appropriate counterparts in the ministries and government agencies, and sent the statistical sheet to the National Statistical Office of Serbia. From September to December 2017, the necessary data and documentation were complied, subsequent to which the questionnaire was completed by the Ministry of Economy of Serbia. In so doing, a score for each policy dimension was assigned, accompanied by a justification. The completed questionnaires and statistical data sheet were sent to the OECD team on 29 December 2017 for review.

The review of the inputs by the OECD and the partner institutions revealed the need for additional information on statistical data. This was requested from the National Statistical Office of Serbia, who sent back the updated statistical sheet on 26 January 2018.

Meanwhile, an independent assessment was also conducted by the OECD and its partner organisations. This was based on inputs from a team of local experts in Serbia, who collected data and information and conducted interviews with key public and civil society stakeholders, as well as with SME representatives.

Following the completion of the government self-assessment and independent assessment, a reconciliation meeting was organised by the OECD and the European Bank for Reconstruction and Development (EBRD) in Belgrade on 28 March 2018. The meeting aimed to fill any remaining information gaps in the questionnaire, while also serving as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies, and what else can be done across various policy areas to improve SMEs' performance and competitiveness in Serbia. For the two policy dimensions whose assessment was led by the European Training Foundation (ETF) – entrepreneurial learning and women's entrepreneurship, and enterprise skills – similar meetings took place in Belgrade on 20-22 February 2018.

The reconciliation meeting allowed the OECD and partner organisations to consolidate the assessment findings. They also evaluated the final scores under each policy dimension presented in this report (more information on how the scores are calculated can be found in the Policy Framework and Assessment Process chapter for details). They presented the preliminary findings and scores to SBA Co-ordinators at a meeting in Paris on 12 July 2018. The draft SME Policy Index publications and the SBA Assessment profile of Serbia were made available to the Serbian Government for their review and feedback from August to October 2018.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 18.5).

For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

Table 18.5. Description of score levels

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

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

Serbia has made great progress since 2016 (Figure 18.1). The score for entrepreneurial learning has increased to 3.70, while the score for women's entrepreneurship stands at 4.35 (Table 18.6). This makes Serbia one of the leaders in the region in this policy area, alongside Turkey and closely followed by Montenegro.

Table 18.6 Scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	3.33	3.73
		Implementation	4.06	3.61
		Monitoring and evaluation	3.33	2.57
		Weighted average	**3.70**	**3.43**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	4.33	3.57
		Implementation	4.43	3.16
		Monitoring and evaluation	4.20	2.37
		Weighted average	**4.35**	**3.12**
Serbia's overall score for Dimension 1			**3.96**	**3.31**

State of play and key developments

Entrepreneurial learning

Serbia has been gradually building the policy and legislative basis for developing entrepreneurial learning[5] as a multisectoral government priority, and as part of an overall policy framework for national entrepreneurship support and human resource development. Both the Strategy for Entrepreneurship and Competitiveness 2015-2020 and the Industrial Policy of Serbia 2011-2020 are part of this framework. The Strategy for Entrepreneurship and Competitiveness 2015-2020 and the National Youth Strategy 2015-2025 contain measures for enhancing entrepreneurship and youth employment, including the provision of practical entrepreneurial experience. The action plan for implementing the Government of Serbia's Work Programme 2017-2019 sets goals for establishing a functional education system and developing entrepreneurial competences at all levels of education. It includes measures to support the national framework of student practice and student co-operatives, as well as to launch an analytical system for monitoring of entrepreneurial education.

Various pieces of educational legislation contribute to entrepreneurial learning: the Education Strategy until 2020, the Law on the Foundations of the Education System, the Law on Pre-school and Primary Education, and the Law on Secondary Education.

2017 saw a major step forward in promoting entrepreneurial learning with the National Assembly adopting two new laws: the Law on Dual Education and the Law on Higher Education.[6] The Law on Dual Education – the main, current legislative vehicle of entrepreneurial learning introduction in vocational education and training (VET) – supports Serbia's economic and social reform steps towards EU membership. It aims to establish the conditions for acquiring, improving and developing competences in line with labour market needs, while contributing to a stronger and more competitive economy. Establishing the new Department for Dual Education and Entrepreneurship at the Ministry of Education during the last assessment period has boosted the economy's progress by setting up an institutional structure for implementing a policy on lifelong entrepreneurial learning.

A formal entrepreneurial learning policy partnership was established in 2011 between the key government agencies – the Ministries of Education, Science and Technological Development, Economy and Regional Development and other ministries – and the Chamber of Commerce, the Employers Union and other private and public organisations. However, this has been inactive during this assessment period. The current national entrepreneurship policy co-ordination body – the Council for SMEs, Entrepreneurship and Competitiveness – is responsible for the broad range of policy issues and, according to the stakeholders in Serbia, needs to pay more attention to developing entrepreneurship key competences among young people. It should ensure the implementation of a holistic vision for promoting entrepreneurship key competences in education, and the smooth progression along different stages of the lifelong entrepreneurial learning system.

Entrepreneurial learning in Serbia is gradually moving to the cross-curricula, "integrated key competence" approach. Entrepreneurship key competences are included in the curricula at several education levels. Since the adoption in 2013 of the Standards of General Cross-Curricular Competences for the End of Secondary Education, which includes entrepreneurship as one of the competences, it has been embedded in both the lower secondary and VET curricula at the system level.

In **lower secondary education**, entrepreneurship key competences are supported by integrating interpersonal competences across all subjects, as well as through a wide use of project work (compulsory for all students from the 1st to the 4th grade). This is underpinned by guidelines for teachers in facilitating the key competence development of their students.

In **secondary VET schools**, entrepreneurship key competences are developed through a dedicated subject and supported by a multitude of practice-based activities under the auspices of the Law on Dual Education. The law's provisions are being introduced step by step into the Serbian education system. Serbia's new dual VET education system aims to modernise both the content of curricula, and to introduce the new career guidance and counselling measures. It also defines the new rights and responsibilities of pupils, parents, schools and employers as equal partners of system-level co-operation between the education institutions and enterprises.

In **higher education**, entrepreneurship key competence is now being implemented through co-operation between the Ministry of Education, Science and Technological Development and the network of state and private universities. Transformation is underway at system level through the project "Institutional framework for development of the third mission of universities in Serbia" (IF4TM), supported by Erasmus+.[7] Mapping continuing education and lifelong learning activities under the project has allowed for a profound analysis of the state of entrepreneurship development in higher education. Recommendations made by the IF4TM have also been adopted, including establishing an institutional framework for enhancing the entrepreneurship competence of university students through measures supporting lifelong learning. These include modernising university curricula; introducing start-up development and intellectual property management courses, innovative projects with enterprises and open innovation campaigns; and setting up technology transfer centres and business technology incubators. This is a major step forward in implementing the recommendations made in the 2016 SBA assessment, which urged Serbia to make changes at the system level and to introduce entrepreneurial learning in higher education.

Other education levels are still catching up in making the key competence approach systemic, despite the broad scope of existing activities. These include introducing student co-operatives, implementing project-based public-private partnerships in upper secondary education and various ad-hoc pilot initiatives in primary education.

It is important to acknowledge that Serbia has responded to the adoption of the European Entrepreneurship Competence Framework (EntreComp) in 2016 through survey-based piloting of **national examination instruments** for evaluating students' interpersonal competences (at 7th grade of primary schools and 3rd grade of secondary schools). The instruments assess student learning outcomes in four cross-curricula competences: problem solving, digital competence, tolerance and entrepreneurial competence, and a responsible attitude towards the environment. The aim of the pilot was to consider the new evaluation framework and to test ways of assessing key competences that are in line with the EU competence frameworks.

During this SBA assessment period, Serbia has introduced various programmes for **in-service teacher training** in entrepreneurship key competence development and the use of active learning methods.[8] There are examples of teacher training on the development of learning outcomes: in primary education, the training included project teaching, project planning, entrepreneurship, and monitoring and evaluation of teaching and learning. In secondary education and VET, the training looked at the use of active learning methods. Pre-service teacher development is the next challenge.

Entrepreneurial learning is subject to monitoring under the Strategy for Education and Education 2017-19, and as part of the dual education legislation, SME strategy, as well as specific programmes and initiatives. An entrepreneurial learning evaluation framework is being developed at a system level as a feature of the new education quality framework. A working group has been tasked with developing new standards, indicators and school self-evaluation procedures. This is prompting an entrepreneurial spirit and contributing to educators' awareness of the importance of students' entrepreneurship competence development from an early age. It will also be necessary to design specific measures for tracking graduates and evaluating the impact of entrepreneurship key competence development on their career satisfaction and pathways.

Women's entrepreneurship

The Strategy for Supporting the Development of Small and Medium Enterprises, Entrepreneurship and Competitiveness 2015-2020 and its action plan include women's entrepreneurship as a sixth pillar. Women's entrepreneurship involves cross-sectoral policy support, as it also features in the Annual National Employment Action Plan, which aims for the equal participation of unemployed women in the labour market through support to women's entrepreneurship. Moreover, the National Employment Service ensures a specific focus on supporting women's economic engagement within the employment policy. Gender sensitivity is a government priority. Serbia has a comprehensive gender policy framework, consisting of the National Strategy for Gender Equality 2016-2020 and the Implementation Action Plan (2016-2018), as well the Strategy for Prevention and Protection against Discrimination and Implementation Action Plan (2014-2018). Both promote women's economic activity, creativity and skills development to unlock their economic potential in Serbia.[9]

According to the *Gender Analysis for Serbia* report, the share of entrepreneurial women has been increasing – from 7.9% in 2007 to 14.9% in 2011 and to 31.7% in 2014. However, only 19.6% of female entrepreneurs run enterprises (Dokmanovic, 2016[24]).

The women's entrepreneurship policy area actively engages public and private partners and creates government policies and support measures. Initiatives are carried out through working partnerships that are strong and informal, but active. The Co-ordination Body for Gender Equality could potentially be an umbrella for a structured partnership for women's entrepreneurship. However, it was not actively engaged in overseeing or co-ordinating activities on women's entrepreneurship during the period of this assessment. Numerous government and non-government organisation (NGO) partners co-operate to support women's entrepreneurship under a variety of programmes and strategies. These include the Ministry of Economy, the Development Agency of Serbia, the National Employment Agency, the Women's Business Association (WBA), the Serbian Chamber of Commerce, the Development Fund and the Export Credit and Insurance Agency of the Republic of Serbia. International and private partners include the European Commission, EBRD, GIZ (*Gesellschaft für Internationale Zusammenarbeit*), the United States Agency for International Development (USAID) and Ernst & Young.

For example, women are a priority target group within some SME training and support programmes implemented by RAS. The number of women who have received government programme support under RAS has been increasing, and in some programmes, women exceed 50% of participants. The Ministry of Economy and the Development Agency of Serbia both support women's entrepreneurship promotion events through the communication measures of the Strategy for Supporting the Development of Small and Medium Enterprises, Entrepreneurship and Competitiveness 2015-2020. This includes joint activities with the WBA. For example, a "Success Flower" award is dedicated to sharing good practices, and increases the visibility of women's entrepreneurship, networking, mentorship, support to female start-ups, support to sustainable women's businesses and promoting role models to potential entrepreneurs.[10]

Serbia demonstrates good practice in the region through offering state finance to activities implemented by **non-government providers** that prioritise women's entrepreneurship. Examples include:

- A project implemented by the WBA on increasing the innovation and business capacities of SMEs through supplier chains.
- The Regional Conference on Women, Family and Entrepreneurship of Young People during the Year of Entrepreneurship in Serbia (2016) organised by the Human Rights Centre.

NGO partners such as WBA also advise the government on policy priorities for women's entrepreneurship support.

In 2016-17, the Ministry of Economy and the Development Agency of Serbia implemented a number of women's entrepreneurship programmes; the RAS has been **monitoring and evaluating** these programmes, financed by the Serbian government or donor-financed projects. Monitoring reports are issued under the SME strategy, and the National Employment Office annual report is also available. RAS commissions external experts to conduct surveys which it uses to prepare an annual Programme Monitoring and Evaluation Report based on pre-defined performance indicators.

The way forward for Dimension 1

Serbia has substantially advanced the design and implementation of policy in entrepreneurial learning, and further developed co-operation with non-government partners for promoting women's entrepreneurship. It has been investing resources in developing legislation, supplying education and training services, communication and awareness-raising measures. However, challenges remain. The following steps could help advance progress on this dimension still further:

- **Strengthen the co-ordination of government policy actions for lifelong entrepreneurial learning.** The government should ensure that the Council for SMEs, Entrepreneurship and Competitiveness gives increasing attention to developing the education sector. Its role could be strengthened for facilitating collective efforts of key stakeholders around the common vision for entrepreneurship key competence development. The council might consider the following measures to consolidate policy actions: overseeing the design and implementation of policy actions across different sectors and levels of education; defining entrepreneurial learning aspects within the dual education concept in VET and across all other forms and phases of lifelong learning; and placing a stronger focus on teacher competence as a key factor of entrepreneurial learning. The council should reinforce the compulsory provision of practical entrepreneurial experience in upper secondary, VET and higher education. These actions would benefit from applying the EntreComp framework to refine the integrated learning outcomes in the curricula and to strengthen impact evaluation and student-tracking measures.
- **Reinforce the new role of the teacher as a facilitator of students' entrepreneurship key competence development**. Attention should be given to pre‑service teacher training across the system, enabling teachers to become facilitators of entrepreneurship key competence development and to apply new methods of active teaching and learning.
- **Pay special attention to progress in developing key competences across levels of education.** The design and implementation of competence-based education programmes should be scaled up to cover all levels of formal education, and to bring entrepreneurship key competence development in primary and upper secondary education to a system level. Counterparts need to make the entrepreneurial learning concept clear to local stakeholders – putting the focus on the development of entrepreneurial personality and not necessarily oriented at start-up creation, and distinguishing it from the dual education approach. The focus should be on teachers' capacity, teaching methods and the new role of a teacher.
- **Ensure better co-ordination and consolidation of government policy actions for women's entrepreneurship**. Serbia needs to refine the focus and increase the role of the Co-ordination Body for Gender Equality in the design and implementation of policies, support measures, and budget funds. In doing so, it should also ensure that gender sensitivity checks are consistently applied to all policy areas affecting women's entrepreneurship in order to make them gender sensitive.
- **Improve policy evaluation.** Implement the comprehensive evaluation of women's entrepreneurship support programmes, ensuring availability and quality of data disaggregated by sex.

Bankruptcy and second chance (Dimension 2)

Serbia's performance on bankruptcy and second chance policies has improved since 2016 (Table 18.7). Its score has increased from 2.62 to 2.84 (Figure 18.1), making it equal to the regional average of 2.87 and ranking it third among the seven assessed economies.

Table 18.7. Scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**2.29**	**2.39**
	Sub-dimension 2.2: Bankruptcy procedure	Design and implementation	4.08	3.71
		Performance, monitoring and evaluation	1.90	2.46
		Weighted average	**3.21**	**3.21**
	Sub-dimension 2.3: Promoting second chance		**1.84**	**1.93**
Serbia's overall score for Dimension 2			**2.84**	**2.87**

According to the OECD *Financing SMEs and Entrepreneurs 2018* scoreboard, the share of SME bankruptcies in 2013 was 12% – a decrease of 4.76% since 2012 (OECD, 2018[25]).

State of play and key developments

Preventive measures and bankruptcy procedures

Serbia's SME Development Strategy sets "improvement of the legal framework for establishing, operating and closing of business entities" as one of the objectives for the period 2015-20. However, the strategy does not provide any further details on how this overarching objective will be achieved. Its corresponding action plan includes only one activity in this area, a promotional campaign to promote positive attitudes about providing second chances and encouraging entrepreneurs to start new business ventures after previous business failures. Although this activity had been planned for 2016, it had not been realised at the time of writing.

Serbia's legal framework for insolvency is based on the insolvency law,[11] which governs the manner and conditions for initiating and conducting bankruptcy proceedings, including liquidation and reorganisation. Since the previous assessment, the Serbian Government has introduced new amendments to the insolvency law that came into force on 25 December 2017. The most important amendments include:

- **Improving the position of secured creditors**: creditors now have more control over the enforcement of collateral. The new amendment grants them the right to take over the sale of collateral, right of first refusal over a buyer in a direct sale, and the right to bid for the collateral with their claim.
- **Composition of the board of creditors***:* secured creditors have the right to appoint one representative to the board of creditors. The board has been shrunk from nine to seven members.

- **Speeding up the process by reducing the threshold for liquidation** vote from 70% to 50% of creditors' aggregate claims. The unsecured creditors who hold 50% or more of the value of all the claims of bankruptcy creditors may decide at the first creditors' hearing that the debtors should immediately go to bankruptcy.
- **Limiting the number of insolvency reorganisation plans**: once a reorganisation plan has been proposed, it can only be modified once following objections raised by creditors. This amendment was introduced as a reaction to the previous situation, in which there was no formal limit on the number of reorganisation plans – this was sometimes abused in practice in order to prolong the process.

Besides this amendment to the insolvency law, no structural changes have been introduced to the insolvency regime since 2014. Therefore, Serbia has recorded no change in score since the last assessment for the time and cost of bankruptcy procedures. However, the recently introduced limitation on the number of insolvency reorganisation plans might reduce the average time for resolving insolvency in future years.

In 2018, the average time for resolving insolvency was two years, and insolvency procedures cost 20% of the debtor's estate.[12] Major expenses include remuneration of the insolvency representative (up to 10-15%), attorneys' fees (up to 5-6%), accountants' fees (up to 3%), auctioneers' fees (1%) and court fees (1%). The average recovery rate for creditors has increased from 32.5 cents for every dollar owed in 2016 to 34.5 cents in 2018, but it is still far below the OECD average of 69.8 cents and EU-13 average of 50.2 cents (World Bank, 2017[15]).[13]

The economy's early warning infrastructure remains undeveloped. Serbia's current system only identifies companies when they are already distressed, while an early warning system should identify distressed companies early enough to allow for a customised reorganisation.

Serbia has various registers that provide information on companies. Both the National Bank of Serbia's Register on Enforced Collection of Claims and the Business Entities Register contain information on companies which have undergone the preliminary proceedings for opening a bankruptcy file. The Serbian Business Register Agency (SBRA) also provides online public information about companies which have initiated insolvency proceedings. Furthermore, the Bankruptcy Estate Register, which began to operate as a single centralised body under the SBRA on 23 January 2010, publishes electronic information on debtors whose assets and properties are temporarily legally owned by the state.

The Serbian legal framework allows entrepreneurs to go into mediation as a pre-bankruptcy alternative way to settle debts. However, this mediation cannot be considered a preventive method, as bankruptcy proceedings need to be initiated first in order to use the out-of-court settlement method. The creditors or the bankruptcy administration, with the consent of the creditors' committee, may propose the resolution of a dispute through mediation – a procedure that cannot take more than 30 days. Exceptionally, in justified cases, an extension of this deadline may be granted, but for no longer than 60 days from the date of the conclusion of the investigation hearing.

Promoting second chance

The government does not provide any support programmes to promote second chances among entrepreneurs who have gone bankrupt. It should also be underlined here that personal bankruptcy does yet not exist in Serbia. Consequently, Serbia lacks a structural and planned approach to promote second chance and overcome the cultural stigma associated with failure.

The only reference made to second chance policies is in the SME Strategy 2015-20. Linked to the second principle of the Small Business Act, the strategy foresees the "Improvement of legal framework for the establishing, the operating and the closing of business entities" without providing any further details. In the action plan one activity (a promotional campaign) was planned for 2016 but not realised.

The SBRA collects data on ongoing and closed bankruptcy cases. However, Serbia does not undertake any regular monitoring and evaluation of bankruptcy or second chance policies.

The way forward for Dimension 2

Serbia has a comprehensive legal framework for its insolvency regime, and has taken positive actions to improve the efficiency of its insolvency proceedings. Nevertheless, there is room for further improvement in the following areas:

- **Develop a fully fledged early warning system:** SME owners have a tendency to underestimate their financial difficulties and to resist taking action to alleviate their hardship. Therefore, Serbia should consider introducing a system which would convince these entrepreneurs to initiate recovery measures. While this system might take different forms, the first step should be to devise special detection procedures that would screen SMEs and monitor them for early signs of financial difficulties. Second, these SMEs need to be approached and offered advice on objectively assessing their financial situation, and the different options available to them for recovery. Once they are better informed, SMEs will be able to take the required steps at an earlier stage, increasing their chances of survival.

- **Enhance co-ordination between different institutions**. The new amendments to the insolvency law were drafted by the Ministry of Economy, although the Ministry of Justice is responsible for its implementation. This is likely to complicate co-ordination, resulting in sub-optimal outcomes. Enhancing co-ordination among relevant public institutions would help the Serbian Government to design tailor-made policies and respond to the needs of SMEs when it comes to bankruptcy and second chance policies.

- **Enhance the monitoring and evaluation of bankruptcy and second chance policies.** The government needs to better evaluate the impact of its current insolvency framework on enterprises, and to use the results to create a more SME-friendly business environment. This task could potentially be assigned to the SBRA, which is already collecting some quantitative data.

- **Improve the legal framework and develop initiatives to reduce cultural stigma surrounding failed entrepreneurs.** A clear distinction has to be made between measures or regulations that apply to fraudulent bankruptcies and those that apply to honest ones – this distinction can be instrumental in changing society's attitude towards debtors. However, such amendments in the legal framework alone would not suffice: they should be complemented by initiatives promoting fresh starts and a culture that is receptive and tolerant of failures. Workshops and seminars aimed at sharing the lessons learned from previously bankrupt entrepreneurs can reduce the stigma related to bankruptcy and failure (see Box 18.2 for a Spanish example).

Box 18.2 A second chance to run a business in Spain

Under Spain's "A second chance to run a business" programme, the Directorate-General of SME Policy and the Institute for the Creation and Development of the Enterprise (INCYDE) Foundation have organised a number of training activities aiming to convince society and entrepreneurs that honest entrepreneurs who have gone bankrupt should have a second chance. Under this banner, a set of activities has been devised on topics such as starting a new business, motivation, and converting an error into an advantage. These have been incorporated into each Spanish region's Entrepreneurs Day in locally chosen activities ranging from workshops, seminars, talks by experts, and meetings between entrepreneurs, to other novel formats such as "entrepreneur theatre" or "entrepreneur cinema". These training activities have been co-financed by the European Social Fund through its Adaptability and Employment pillar. In total, 70 training activities were organised in 2010, reaching out to 6 000 entrepreneurs or potential entrepreneurs.

The success of this measure is due to the close co-operation among all those involved in the Entrepreneurs Day at national, regional and local level. Furthermore, the INCYDE Foundation has adopted the principle that second-chance entrepreneurship is necessary, showing great dedication and devoted considerable resources in pursuit of that aim. Entrepreneurs have responded well to the initiative and evidence suggests that they are better able to cope with failure as a result.

Source: EC (2018[26]), *Small Business Act – Database of Good Practices*, http://ec.europa.eu/growth/tools-databases/sme-best-practices/SBA/index.cfm?fuseaction=practice.detail&gp_pk=7750&tr_pk=6710.

Institutional and regulatory framework for SME policy making (Dimension 3)

With a score of 4.24 (Table 18.8), Serbia is the regional leader in this dimension alongside Montenegro. Serbia's SME policy framework is quite advanced – a comprehensive SME strategy is in place and its implementation is going to plan. However, Serbia has made only incremental progress during this assessment cycle. Its score in 2016 was 4.1 (Figure 18.1), so it was starting from an already high base. This suggests a slight stagnation, especially in its monitoring and evaluation of policies.

Table 18.8 Scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.73	4.06
		Implementation	3.93	4.06
		Monitoring and evaluation	4.71	3.92
		Weighted average	**4.33**	**4.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	4.20	4.00
		Implementation	4.09	3.25
		Monitoring and evaluation	4.20	3.23
		Weighted average	**4.15**	**3.47**
	Sub-dimension 3.3: Public–private consultations (PPCs)	Frequency and transparency of PPCs	4.36	3.86
		Private sector involvement in PPCs	4.33	4.26
		Monitoring and evaluation	3.67	2.73
		Weighted average	**4.21**	**3.79**
Serbia's overall score for Dimension 3			**4.24**	**3.79**

State of play and key developments

Institutional framework

Serbia's institutional framework has remained solid, with a comprehensive SME development strategy (2015-20) and an operational SME agency in place. Since the last assessment, Serbia has paid more attention to policy implementation, as observed by its "Year of Entrepreneurship" initiative in 2016. Under this initiative the government has increased its financial and non-financial support to SMEs. It has also increased the amount of grants available to SMEs, targeting investment, internationalisation and innovation (EC, 2017[27]). Its success led to the government establishing the "Decade of Entrepreneurship" in Serbia for 2017-2027.

In addition, the Council for SMEs, Entrepreneurship and Competitiveness, which was entrusted with the task of monitoring the SME strategy implementation, became operational in November 2017 – two years after it had formally been established. However, since it only started operating recently, to date no comprehensive monitoring of the SME development strategy has taken place.

During this assessment cycle, the government has put more emphasis on tackling Serbia's informal economy, introducing its National Programme to Combat the Grey Economy in

2015. This programme formally proclaimed 2017 and 2018 as the years for combatting the informal economy. The programme has adopted a new action plan for 2017/18, comprising 107 measures to improve control over financial flows and reduce administrative burdens on businesses. It has particularly focused on improving the co-ordination of inspection services through a unified information platform called e-INSPEKTOR. By June 2018, some of the inspection services had already been harmonised with this platform, while the plan is to have all 42 inspection services connected by mid-2019, which will enable full transparency and contribute to efforts to reduce the informal economy.

Legislative simplification and regulatory impact analysis

Since 2004, regulatory impact analysis (RIA) has been applied to major regulations (all new laws and strategies), while the SME Test is planned to become a part of its methodology by the end of 2018.[14] The institution responsible for RIA is the Public Policy Secretariat (PPS), which reviews RIA reports and gives an opinion on them. In 2017, the PPS provided opinions on 59 RIA reports prepared by line ministries. During the assessment period, the government introduced a Regulatory Reform Strategy (2016-20), with the aim of carrying out large-scale reviews of business-related legislation. To that end, a centralised database will be created listing all business-related legislation to be simplified (Box 18.3). The PPS is the key institution in charge of co-ordinating the implementation of this strategy.

Box 18.3 Strategy for Regulatory Reform in Serbia (2016-20)

The Strategy for Regulatory Reform 2016-20 is the key strategic document in the area of legislative simplification. Through this document, the government has established the strategic guidelines for the next five years for creating a more efficient and effective public administration, providing maximum benefits for citizens and businesses. The strategy is also intended to implement the Public Administration Reform Strategy, thereby completing the overall reform process in this field.

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

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

The project is expected to realise savings of at least USD 8 million in the business sector and increase competition by removing at least two anti-competition practices in each selected field. Creating a better business environment could increase investment including foreign direct investment, strengthen competitiveness, increase employment and improve standards of living.

Sources: PPS (2018[28]), *Business Environment Improvement Project 2018-2021*, https://rsjp.gov.rs/;information collected from the government over the course of this assessment.

Public-private consultations

Public-private consultations (PPCs) are formally required in Serbia. There is a centralised government portal listing all the ongoing PPCs, and consultations are open to all interested participants. Since the last assessment, the main development has been increased private sector participation in PPCs. In particular, the Serbian Chamber of Commerce has undertaken measures to enhance participation by SMEs in PPCs by establishing a Council for SMEs. This council is comprised of both members and non-members of the Chamber of Commerce, thus enhancing its outreach and ensuring full SME participation in discussions on business-related legislation.

Despite all these positive developments, 60% of laws relevant to business did not go through a public hearing in 2017, 90% were made by urgent procedure, while half of all draft laws were not available on the relevant ministry websites. Moreover, the private sector is resentful that even when their feedback is sought, it is usually late in the process. This leaves little room for the regulation or document concerned to be adjusted, creating a feeling among private sector representatives that it is futile to participate in PPCs. In a similar vein, written public consultations are not systematically organised through a single obligatory central portal, as ministries only publish consultations on their own websites.

Recognising these shortcomings, the PPS, the National Alliance for Local Economic Development (NALED) and USAID initiated the Public-Private Dialogue for Growth Project in Serbia in 2018, with the aim of building effective and sustainable co-operation and communication between the state, businesses and civil society (Box 18.4).

Box 18.4 The Public-Private Dialogue for Growth Project (2018-21)

A pilot project on public-private dialogue launched in 2013 led to the successful reform of construction permits in Serbia. Based on this success, a more comprehensive project – Public-Private Dialogue for Growth – has been developed with the aim of creating effective dialogue between the public and private sector. Its key activities and expected results in the period 2018-21 are:

- capacity building for public-private dialogue in state institutions and six selected businesses associations or civil society organisations
- support for advocating and implementing six key reforms to improve the business environment
- creating the first guide, online training programmes, models and tools for public-private dialogue
- establishing the Public-Private Dialogue Hub as a central place for public-private dialogue.

For the first two years of the project, three business associations and three priority reform topics were selected to receive public-private dialogue support, jointly conducted by the state and business community. These are the Beekeeping Association of Serbia, which initiated the issue of tackling bee poisoning; the Association for the Development of Entrepreneurship, which advocates improving the lump-sum taxation system; and the Agro Cluster of Serbia, which is dedicated to eliminating regulatory obstacles to organic production.

Sources: PPS, NALED, USAID (2018[29]), *Public Private Dialogue for Growth*, www.jpd.rs/o-projektu.php; information collected from the government over the course of this assessment.

The way forward for Dimension 3

Serbia has established a solid institutional and regulatory framework for SMEs. Moving on, it should place more emphasis on the following points:

- **Improve monitoring of SME policies and start evaluating their effectiveness on the ground.** The Ministry of Economy is in joint charge of monitoring the implementation of the SME Strategy with the Council for SMEs, Entrepreneurship and Competitiveness. The Ministry of Economy reports quarterly to the council, which is then supposed to submit an annual report on the strategy's realisation to the government. However, since the council started its duties quite late as mentioned above, regular monitoring of the strategy is in question. In addition to this, there has not yet been any evaluation of the effectiveness of the business-enabling measures. It is now essential to move forward and assess the real impact of the policies. This assessment, which should be both backward and forward looking, would need to examine whether SMEs are disproportionately affected or disadvantaged compared to large companies. If this is the case, the government should review the policy actions and introduce changes to tackle the challenges that SMEs are experiencing. One of the mechanisms for this action is the SME Test, which has yet to become mandatory in Serbia.
- **Make RIA findings binding for line ministries.** RIA practice is quite advanced in Serbia, with a well-functioning institution – the PPS – in charge. However, while the PPS provides opinions on RIA reports, there is no obligation for line ministries to comply with their findings. If the findings do not result in tangible modifications of the proposed legislation, this diminishes the value of the RIA exercise. The government should therefore consider introducing a legal mechanism that would make it compulsory to implement the recommendations in the RIA reports for the institutions proposing the legislation.
- **Enhance the quality of the PPC process**. Even though Serbia has a theoretically flawless public-private consultation mechanism in place, in practice it has not yet achieved the desired level of success. First, the quality of the PPC process is not uniform across institutions. Second, the transparency of the PPCs needs to be improved since it is left up to each ministry to publish the draft regulations and documents for consultations on the single governmental e-portal. Third, PPC is very commonly circumvented through an urgent adoption procedure. To overcome these irregularities and increase compliance with the PPC requirements, Serbia should consider introducing a central co-ordination unit within the

Ministry of Economy or the Office of the Prime Minister that would oversee the proper use of the single government portal for consultations and act as a quality check and a control mechanism.

Operational environment for SMEs (Dimension 4)

Serbia has made limited progress in this dimension since the 2016 assessment. Its score has increased from 3.61 to 3.73 (Figure 18.1), placing it third in the WBT region, slightly above the regional average of 3.45 (Table 18.9).

Table 18.9. Scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for enterprises	Planning and design	4.25	4.07
		Implementation	3.69	3.47
		Monitoring and evaluation	2.33	2.05
		Weighted average	**3.52**	**3.29**
	Sub-dimension 4.2: Company registration	Design and implementation	4.67	4.48
		Performance	4.03	3.72
		Monitoring and evaluation	4.54	3.59
		Weighted average	**4.49**	**3.97**
	Sub-dimension 4.3: Business licensing	Licence procedures	3.25	3.67
		Monitoring and streamlining of licence system	3.93	3.18
		Weighted average	**3.59**	**3.43**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Serbia's overall score for Dimension 4			**3.73**	**3.45**

Note: A new sub-dimension 4.4 on tax compliance procedures for SMEs was added at the request of the assessed economies, to better reflect the complexity of the overall picture of the operational environment for SMEs, however, as it is a pilot analysis this sub-dimension has not been included in the scoring.

State of play and key developments

Digital government services for enterprises

In December 2015 the Serbian government adopted the Strategy for e-Government Development of the Republic of Serbia 2015-2018. This strategy defines the basic goals and priorities for improving the state of electronic administration. It also sets out the steps required to develop the national e-Government Portal (www.euprava.gov.rs/). In this context, the government is making considerable efforts to adjust its legal framework to digitalise the services it offers to enterprises:

- In January 2018, the government adopted the Electronic Document Law, the first law of this type in Serbia. This brings Serbia into line with the EU 910/2014 eIDAS Regulation[15] on electronic signature. The law allows citizens to use their electronic signature in electronic communications when carrying out various transactions. Currently, the use of electronic signatures is only available for a limited number of services, such as filing tax returns, pensions and cadastre-related services.

- In April 2018, the government adopted a law on e-government which introduces a legal framework to facilitate electronic communications among citizens, legal persons, non-government organisations and administrative bodies.
- In June 2018 the law on the Registration Procedure with the Cadastre of Real Estate and Utilities entered into force. It aims to change the method of filing applications related to the cadastre, and to accelerate the process by introducing an obligation for various authorities to submit their documents to the cadastre electronically.

Serbia has been participating in the Open Government Initiative since 2013, aiming to make public services for SMEs more transparent and better quality. In 2016, the government adopted the second Action Plan on Implementation of the Open Government Partnership Initiative in the Republic of Serbia in 2016 and 2017 (Open Government Partnership, 2018[30]). Since the previous assessment, Serbia has launched the National Open Data portal as a part of the Open Data – Open Opportunities project co-ordinated by the United Nations Development Programme Serbia (see Box 18.5). Since its launch in October 2017, 22 public institutions have made 85 datasets publicly available through the portal, comprising 245 individual files.

Box 18.5. The Open Data – Open Opportunities project (2017-19)

The Open Data – Open Opportunities project aims to support the development of an open data ecosystem in Serbia that will catalyse better government services to citizens and generate economic growth. The project, initiated in 2017, is implemented by the United Nations Development Programme (UNDP) in partnership with the Office for Information Technologies and E-Government, with financial support from the World Bank and the United Kingdom's Good Governance Fund.

The project follows the recommendations set out in the Open Data Readiness Assessment conducted by UNDP and the World Bank, and is in line with the Serbian Strategy for e-Governance Development 2015-18 and its action plan.

The goal is to establish the National Open Data Portal (www.data.gov.rs), a central place where data from state authorities will be aggregated and made available to citizens, companies and NGOs. Its expected benefits are:

- **To increase accountability and transparency in government administration** by creating an adequate legal framework, and by enabling services such as anti-corruption apps and websites to use open data to make officials' work and decisions more visible, leading to greater accountability.
- **To improve the business climate by spurring entrepreneurship and encouraging private-sector development:** as more small companies emerge, more useful information can be extracted from the business ecosystem, creating new and knowledge-intensive business services.

As part of the project, the Office of Information Technology and E-Government organised the first ever Open Data Week in March 2018 in various cities across the country, including Belgrade, Novi Sad, Inđija, Šabac, Vršac, Valjevo and Subotica. The workshops gathered representatives from start-ups, SMEs, researchers and other relevant stakeholders. They informed participants about the information available through the

National Open Data Portal and taught them how to use it.

Future key activities envisaged under this project include developing the knowledge and skills of government employees in data processing; stimulating co-operation among the public, private and civil sector; and supporting the use of open data and data literacy

Source: UNDP (2018[31]), *Open Data - Open Opportunities,* http://www.rs.undp.org/content/serbia/en/home/projects/opendata.html; UNDP (2015[32]), *Open Data Readiness Assessment: Republic of Serbia,* http://www.rs.undp.org/content/dam/serbia/Publications%20and%20reports/English/UNDP_SRB_ODRA%20ENG%20web.pdf.

Business registration and licensing

Entrepreneurs in Serbia can register their companies through the Serbian Business Register Agency. Although this operates as a one-stop shop, entrepreneurs cannot complete all the necessary registration and notification procedures on line. The registration procedure starts by submitting the application (which can be obtained at the SBRA or downloaded from its website), along with the required supporting documents and proof of payment of the prescribed fees. This can be done directly at the SBRA head office in Belgrade, at one of its administrative units or by mail.

Despite the fact that online registration is still not available, Serbia has made significant progress in the last three years in simplifying business registration. In 2016, it reformed its business registration process by reducing the signature certification fee and improving the registry's efficiency. As a result, the number of days needed to start a business in Serbia fell from 6.5 days in 2016 to 5.5 in 2018. Similarly, the cost of starting a business fell from 6.5% of income per capita in 2016 to 2.2% in 2018 (World Bank, 2018[4]).

In contrast to business registration, Serbia does not yet have a centralised location where SMEs can find out about licensing procedures and which types of licences are applicable to their businesses. Different licences are under the competences of different institutions. The Chamber of Commerce and Industry of Serbia guidelines[16] do explain about the licenses needed when establishing a business. However, the latest version was published in 2014; since then a number of procedures have changed but it has is not yet been updated.

The government started to simplify the licensing process under the Instrument for Pre-Accession Assistance (IPA) programme as part of a project to carry out its Action Plan for Improving the Business Environment. The aim is to support the implementation of the remaining priority reforms and activities included in the action plan. This project will focus on reducing the legal, regulatory and administrative obstacles to doing business in Serbia, making the business environment more favourable and predictable. However, two years after the project's launch, only construction permits have been simplified. In 2016, the government made dealing with construction permits faster by implementing an online system through the SBRA and streamlining the process for obtaining building permits.

Tax compliance procedures for SMEs

Unincorporated SMEs in Serbia can benefit from a lump-sum type of presumptive income tax scheme, used by almost 110 000 entrepreneurs constituting more than 30% of businesses. The collected data demonstrate that this type of taxation is most frequently used by taxi drivers, legal professions, hairdressers and programmers (USAID, NALED, URP, 2018[33]). SMEs operating in wholesale and retail, hospitality, financial mediation and real estate are not eligible to apply for this scheme. Applicants must first file a form, and based on the information provided, the tax inspector determines a monthly lump sum income on which tax and contributions are paid. This income is the base on which tax is paid at the rate of 10% (Lazarević, 2008[34]).

This scheme allows entrepreneurs approved by the tax administration to pay the same amount of income tax each month, regardless of their turnover. However, a recent study finds a number of shortcomings in this lump-sum taxation system, highlighting the unnecessary administration burden and unpredictability in terms of costs of doing business for entrepreneurs. For instance, when starting a business, entrepreneurs do not know if the "lump-sum" status will be granted to them, since the decision is taken only after registration. They cannot therefore calculate whether starting a business would pay off. Moreover, tax decisions indicating the liabilities to be paid are issued with several months of delay Based on these findings, NALED initiated a project in 2018 with the support of USAID to reform the lump-sum taxation system, by improving the regulations on granting lump-sum status to businesses, and making the scheme more efficient by introducing economic data exchange among public institutions (USAID, NALED, URP, 2018[33]).

SMEs in Serbia also benefit from a value-added tax (VAT) registration and collection threshold of RSD 8 000 000 (around EUR 67 600), below which they are not obliged to register for a VAT remit. SMEs are also allowed to use cash accounting for VAT purposes.

As for other tax simplifications, the government has extended to December 2019 the legislation which grants micro and small enterprises, as well as sole proprietors, a 75% refund on personal income tax paid for new employees.

The way forward for Dimension 4

Despite some improvements in the operational environment for SMEs, some challenges remain. Serbia should consider taking the following steps:

- **Continue to expand the use of digital authentication to widen the range of e-services**. E-signatures or digital authentication is only available for a limited number of e-services, such as filing social security returns, with entrepreneurs needing to be physically present to complete the process. The government needs to expand the use of digital authentications to allow SMEs to complete as many administrative procedures as possible on line.

- **Introduce electronic distribution and nomination of licence officers.** Serbia is currently in the process of establishing an e-licences portal with the aim of getting all information and applications on line. Serbia should also consider improving the platform by assigning the officials responsible for licences digitally. This would increase transparency, avoid conflicts of interest and improve SMEs' trust in government. Moreover, it would help to speed up administrative procedures, while ensuring more efficient staff allocation.

- **Implement simplified tax regimes by measuring the effective burden created on SMEs**. The introduction of simplified tax procedures for SMEs could be based on close monitoring of the effective tax burden on SMEs, in order to best meet their needs. The current lump-sum tax regime needs to be reviewed, and should be redesigned or replaced with other presumptive tax regimes to allow SMEs greater certainty regarding tax liabilities. Turnover is the most common criterion for determining eligibility for the various simplification measures observed in OECD and G20 countries. Its appeal relies on the fact that almost every SME will know the value of its total sales, therefore making it relatively easy to monitor and comply with. Eligibility criteria might also encompass objective parameters such as electricity consumed, floor space or facilities, or total number of employees. Box 18.6 provides some examples from OECD countries which may be valuable here.

Box 18.6. Income tax simplification measures in OECD countries

- Australia reduces the period within which a notice of assessment can be issued by the Commissioner of Taxation, whereas this compares to four years for other taxpayers. Australia also has pay-as-you-go instalments based on gross domestic product adjusted notional tax. SMEs that are full self-assessment taxpayers are eligible for the GDP adjusted notional tax method of calculating instalment liabilities. This removes the requirement to calculate instalment income themselves, reducing compliance costs.
- Canada provides a shorter reassessment period for SMEs' income returns when they are individuals or Canadian-controlled private corporations, limiting the assessment period to three rather than the four years that applies to certain other taxpayers.
- In the Slovak Republic, unincorporated self-employed business owners are not subject to the minimum tax regime.
- Other countries simplify compliance obligations for SMEs for transfer pricing documentation. For example, in Denmark SMEs are only required to prepare and retain transfer pricing documentation for businesses with persons that are resident in a country that is not a member of the EU or the European Economic Area, and which does not have a double taxation agreement with Denmark. SMEs that qualify for this preference must have less than 250 employees, a balance sheet of under DKK 125 million (Danish krone) or a turnover of less than DKK 250 million.

Source: OECD (2015[35]), *Taxation of SMEs in OECD and G20 Countries*, http://dx.doi.org/10.1787/9789264243507-en.

Support services for SMEs (Dimension 5a)

Compared to the latest 2016 Small Business Act assessment, Serbia has improved its overall dimension score in business support services (BSS) for SMEs from 3.85 to 4.12 (Figure 18.1). This is the second highest score in this dimension for all the West Balkan and Turkey economies (Table 18.10).

Table 18.10. Scores for Dimension 5a: Business support services

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 5a: Business support services for SMEs	Sub-dimension 5a.1: Business support services provided by the government	Planning and design	4.26	3.84
		Implementation	4.37	3.68
		Monitoring and evaluation	4.36	3.19
		Weighted average	**4.33**	**3.63**
	Sub-dimension 5a.2: Government initiatives to stimulate private business support services	Planning and design	4.43	4.67
		Implementation	3.57	3.85
		Monitoring and evaluation	4.00	4.07
		Weighted average	**3.91**	**4.14**
Serbia's overall score for Dimension 5a			**4.12**	**3.89**

State of play and key developments

In 2016, the economy established the Development Agency of Serbia (RAS), which replaces the Serbia Investment and Export Promotion Agency and the National Agency for Regional Development. RAS is the leading public institution for providing SMEs with BSSs. Shortly after its establishment in 2016 it conducted a training needs analysis among SMEs, surveying 159 micro, 112 small and 14 medium-sized enterprises. Serbia has also made progress in extending its BSS outreach during the assessment period.

The Law on Regional Development (Article 41) allows RAS to accredit regional development agencies (RDAs) to implement BSS programmes, using public funds. In order to become an RDA and to qualify for RAS accreditation, a company or association needs to be established as a limited liability company and be majority-owned by the local government. While there were only two accredited RDAs in 2012, there were 14 in 2016 (OECD, 2016[19]) and 16 RDAs in 2018, providing BSSs to SMEs throughout the whole economy. In 2017 RAS, alongside the Ministry of Economy, launched the Standardised Set of Services programme, implemented by accredited RDAs. Within the programme framework RDAs provide SMEs with information, training, advisory services and mentoring, while promoting entrepreneurship.

Serbia provides a wider range of BSSs than other WBT economies, ranging from general information on business topics (e.g. relevant legislation for starting a business, how to develop a business plan, available financial and non-financial BSS) to training, mentoring and consulting. The mentoring support provided within the Standardised Set of Services programme is particularly noteworthy (see Box 18.7). The programme's methodology was conceived by RAS in collaboration with the Japan International Cooperation Agency.

Bosnia and Herzegovina, Montenegro and the Republic of North Macedonia are expected to roll out the same programme in coming years.

Box 18.7. The Development Agency of Serbia's standardised mentoring service

Background

The Development Agency of Serbia's (RAS) mentoring programme is designed to provide timely, continuous mentoring support to SMEs and start-ups with growth potential at crucial stages of their business paths. The programme began in 2005 using business support methodology developed by the National Agency for Regional Development in co-operation with the Japan International Cooperation Agency (JICA). In 2008, following a three-year pilot period that saw positive results, RAS standardised the programme and has run it ever since.

Programme activities

The mentoring programme follows a sequence of main steps: 1) diagnosis; 2) analysis and action plan (proposing measures to improve the business); 3) intervention (implementing the proposed measures; and 4) evaluation and tracking.

The programme allocates an expert mentor to spend a certain number of hours (from 25 to 50 hours per beneficiary) at the beneficiary's premises. The mentor and the SME's director jointly conduct a diagnosis to understand the business's operations, the reasons for any current problems or obstacles to further development, and the areas with the most growth potential. Based on these identified factors, the mentor and the beneficiary prepare a plan/development project. The business support plan could potentially relate to any functional area of the enterprise, including organisational structure, human resources management, financial management, logistics and distribution, production-technological processes, intellectual property and quality systems. Depending on the need, the mentor could also refer the SME to more specialised consulting services.

Impact

- 2005-06: 37 civil servants received certified training by JICA
- 2006-09: more than 700 businesses supported
- 2011-12: 268 SMEs supported
- 2013-14: 213 SMEs supported
- 2015-16: 204 SMEs supported
- 2017: 253 SMEs supported

Results and feedback from SMEs (up to 2015)

- 99% of beneficiaries completed the entire programme
- 92% of beneficiaries felt there was a positive impact on some aspect of their business
- 95.2% of beneficiaries accepted almost all the proposed measures to improve their business.

It is also worth noting that the programme gave a significant number of RAS personnel the opportunity to upgrade their skills and knowledge. This professional development has had a positive impact on the RAS and, in turn, enabled the agency to provide long-term support to the national SME base via the same trained civil servants. The programme also contributed to raising awareness among Serbian SMEs on the importance and benefits of expert advisory support and non-financial business support schemes.

Success factors

While the programme faced a number of challenges during its planning and implementation phase due to bureaucracy and public sector systemic delays, it nonetheless achieved all its objectives. Furthermore, its results were so positive that they led to the mentoring programme being institutionalised in 2011 as a standard service for SMEs in Serbia, delivered by the RAS with support from JICA.

Sources: RAS (2017[36]), *Create Life: Public Call for the Implementation of Standardised Mentoring Service*, Development Agency of Serbia, http://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-the-implementation-of-standardised-mentoring-service; information collected from RAS over the course of this assessment.

Raising SMEs' awareness of government BSSs and providing them with easily accessible and centralised information about their availability remains an area for improvement in most WBT economies. Serbia does relatively well in this area. As described above, in 2016, it launched the Year of Entrepreneurship, when it started 33 financial and non-financial support programmes. The initiative has now grown into the Decade of Entrepreneurship and a dedicated website (www.godinapreduzetnistva.rs/) provides a single comprehensive information point on government BSSs from different public institutions. This makes it easier for SMEs and start-ups to navigate between the various BSSs provided by different government institutions.

Initiatives such as the Year of Entrepreneurship may have contributed to a relatively high uptake of BSSs by SMEs. In 2017, 5.1% of all SMEs in Serbia used a publicly (co-) funded BSS, while only 3% of SMEs did so in the other five Western Balkan economies on average, according to data received for this assessment.

Regarding monitoring, Serbia performs better than most other WBT economies. In particular, it collects SMEs' comprehensive feedback on the effectiveness and quality of publicly provided BSSs; readjusts services based on monitoring results; and makes RAS' annual performance reports publicly available, thus increasing transparency.

The way forward for Dimension 5a

Despite very positive developments which make BSS provision in Serbia particularly strong compared to other WBT economies, some challenges remain. These can be overcome by the following actions:

- **Better tailor BSSs to SMEs' needs in line with the training needs analysis results**: Serbia's SME Development Strategy 2015-2020 action plan has not been renewed since it was phased out in 2016, which might hinder the timely implementation and effective monitoring of measures to foster BSS provision. Similarly, while RAS conducted a training needs analysis (TNA) among SMEs in 2016, it did not use the results to better tailor business support services to SMEs' needs. Serbia should develop a new action plan to reach the objective formulated in the SME strategy. The action plan should be built on a detailed assessment of the previous action plan's success, prioritising actions where implementation has not yet followed suit and including measurable targets to facilitate monitoring. In addition, it should respond to SMEs' demands reflected in the TNA in order to fill the gaps in BSS provision, to better target the support provided and to create more effective BSS provision systems. Taking the TNA's results further into account would help RAS and other relevant institutions ensure that BSS programmes and initiatives are tailored to the characteristics and dynamics of micro and SME beneficiaries, as well as to the industry sector they belong to, and to their stage of development and actual experience in the market. Serbia should also consider calling in an independent institution to conduct an in-depth evaluation of its BSS provision, assessing the impact of BSS programmes according to key performance indicators.

- **Extend the accreditation procedure to include more private sector BSS providers**. Over the last ten years RAS has accredited a number of RDAs, entitling them to public funding to implement BSS programmes. However, only limited liability companies which are majority-owned by local governments are entitled to accreditation. In order to stimulate private sector BSS provision, accreditation should also be opened up to private sector providers which are not (part-) owned by local governments. Therefore, Serbia should consider establishing an accreditation system of private sector consultants and trainers who SMEs could use under co-financed support programmes. Such an accreditation system could be designed in co-operation with recognised professional bodies and ensure that private sector providers have a minimum required level of experience and qualifications. This would guarantee the quality of services delivered and, as a consequence, have a positive impact on SMEs' growth and encourage SMEs to be more enthusiastic in seeking the benefits of privately delivered BSS.
- **Introduce tools, such as an online portal, to help SMEs navigate and find private consulting services that would address their needs.** Governments, i.e. SME agencies or dedicated public institutions, can play an important role in helping SMEs identify the most suitable private BSS provider, without crossing the line of prescribing one particular service provider. To date, Serbia's relevant institutions for BSS do not provide an online database with accredited private sector consultants. In order to facilitate the growth of a diversified BSS market, Serbia should continue to use co-financing schemes and create a database of private sector experts, specialists and consultants. This database should be kept up to date, promoted among the SME base and made easily accessible to the public.

Public procurement (Dimension 5b)

Serbia has obtained the weighted average score of 3.52 for this dimension (Table 18.11), which is the lowest score among the region's seven assessed economies. It is also a worse result than in 2016 (4.5; see Figure 18.1). However, it should be noted that due to changes in the assessment methodology the scores obtained in 2019 are not totally comparable with those in 2016.

Table 18.11. Scores for Dimension 5b: Public procurement

Dimension	Thematic block	Serbia	WBT average
Dimension 5b: Public procurement	Policy and regulatory framework	3.59	3.92
	Implementation	3.57	4.05
	Monitoring and evaluation	3.39	3.24
	Weighted average		
Serbia's overall score for Dimension 5b		**3.52**	**3.84**

State of play and key developments

The basic legal act for public procurement – the Public Procurement Law (PPL), adopted in 2012 – was last amended in 2015. There have been no legislative changes to public procurement in the assessment period. In 2017, the Public Procurement Office (PPO) started to work on the draft of the new PPL which will implement the 2014 EU Public Procurement Directives. Its adoption is expected at the beginning of 2019. In 2016, the PPO published its *Guidelines for Increasing Participation of Small and Medium-Sized Enterprises in Public Procurement Procedures*. The guidelines present the analysis of the obstacles faced by SMEs in accessing public procurement contracts, while proposing a number of actions and solutions to improve the current situation.

The 2012 PPL is based on the general principle of bidder equality, but gives mandatory preference to domestic companies, whose bids benefit from a 5% preferential factor. As of 1 September 2018, since the expiry of the transitional period envisaged in the EU-Serbia Stabilisation and Association Agreement, this preferential treatment is also available to bidders from EU countries. The draft of the new PPL, in its current form, does not provide for domestic preferences and envisages equal treatment of all economic operators regardless of their origin. Access to public procurement contracts in Serbia is open to economic operators who may be natural or legal persons, as well as groups of these persons. Contracting authorities should set non-discriminatory and proportionate requirements for participating in procurement. Those requirements should also be related to the object of the procurement. The PPL provides for the possibility that a winning bidder entrusts execution of a part or parts of the contract to third parties (subcontractors). Legal provisions envisage limitations on subcontracting however: the share of the total procurement value which may be entrusted to subcontractor(s) may not be greater than 50% of the value of the contract. If the estimated value of procurement exceeds the amounts referred to in the PPL, the contracting authorities may require bidders to subcontract a certain share of the contract to SMEs.

The PPL provides a number of solutions which are helpful from an SME perspective. Rather than requiring bidders to submit documents or certificates with their bids, the contracting authority may stipulate in the tender documents that the fulfillment of all or some individual requirements is to be proved by a statement from the bidder, confirming that it fulfills the relevant requirements. The contracting authority would then only ask the bidder with the most advantageous bid to supply original documents of the required evidence before awarding a contract. It may also request the originals or certified copies of all or some of the proof. The contracting authority does not have to ask a bidder to supply all of the proof when it already has adequate evidence from the same bidder from previous public procurement procedures. The contracting authority may not refuse a bid as unacceptable because it does not contain evidence defined by the PPL or by the tender documents, so long as the bid included a website address containing the requested data and which is publicly accessible. Finally, the PPL allows bidders to use the Register of Economic Operators held by the Agency for Economic Registers. Those economic operators who are listed do not have to provide evidence that they fulfil the contractors' requirements; theoretically it is sufficient to prove that they are listed in the register, or indicate the internet address where the relevant information is publicly available. In 2017, 10 418 economic operators were listed in the register.

The Public Procurement Office is the main institution responsible for public procurement. Its duties include providing interpretations and support for implementing public procurement rules, both for contracting authorities and economic operators; monitoring the application of the PPL; issuing implementing regulations; and disseminating information about public contracts. The PPO supports SMEs by providing advice, free of charge, on applying public procurement provisions. SMEs can obtain advice via telephone calls, e-mails or by post. The PPO also publishes regular reports on the functioning of the public procurement system in Serbia. These include statistical data on the average number of submitted bids in public procurement procedures, concluded contracts, their value and number, procedures, subject matters and the share of foreign economic operators who were awarded contracts in a given reporting period. The reports contain very limited statistical data about economic operators (in particular SMEs) who were awarded contracts. Serbia has not yet implemented a full electronic procurement system and electronic functions are limited to basic services such as publishing procurement notices and tender documents on the Public Procurement Portal. However, a fully electronic public procurement in Serbia is envisaged in the draft of the new PPL, including a new Public Procurement Portal.

The Republic Commission for the Protection of Rights in Public Procurement ensures that economic operators' rights are protected in public procurement procedures. The commission is an independent review body whose members are appointed by parliament. Applicants file a request for rights protection to the contracting authority and a copy is submitted to the commission. The economic operator may then submit an appeal to the commission against the contracting authority's decision within three days of receiving the decision. This time period is too short to satisfy the requirements of EU Public Procurement Remedies Directive.

The way forward for Dimension 5b

As mentioned above, Serbia has established a solid institutional and regulatory framework for public procurement. Going forward, it should give more emphasis to the following points:

- **Further align national legislation with EU rules and international good practice**. In particular:
    - o ensure that economic operators have access to public procurement on an equal footing regardless of their origin

  - remove restrictions on subcontracting, such as limiting the maximum share of the procurement contract that may be subject to subcontracting
  - extend the respective time periods for applying for public procurement legal protection measures in line with the EU Remedies Directive.
- **Introduce a fully electronic public procurement system,** including communications, as well as tender submissions or requests to participate by electronic means. Since electronic procurement became, in principle, mandatory in the European Union as of 18 October 2018 there are plenty of good examples of electronic procurement in the EU countries.

Access to finance for SMEs (Dimension 6)

Serbia has made further progress in the area of accessing finance for SMEs, slightly improving its performance to a score of 3.72 (Table 18.12) compared to the previous assessment (Figure 18.1). This score makes Serbia the highest performer in the Western Balkans and second overall in the WBT region after Turkey. Most notable progress has been made in the area of bank finance, primarily due to the improved performance of the banking sector and increased macroeconomic stability.

Table 18.12. Scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 6: Access to finance for SMEs	**Sub-dimension 6.1**: Legal and regulatory framework	Creditor rights	4.27	4.20
		Register	4.45	4.58
		Credit information bureau	5.00	4.55
		Banking regulations	4.50	3.79
		Stock market	3.29	2.93
		Weighted average	**4.38**	**4.14**
	Sub-dimension 6.2: Sources of external finance – bank financing	Banking lending practices and conditions	3.12	2.92
		Credit guarantee schemes	2.33	2.30
		Weighted average	**2.80**	**2.67**
	Sub-dimension 6.3: Sources of external finance – non-bank financing	Microfinance institutions	2.00	3.57
		Leasing	3.30	2.84
		Factoring	3.25	2.45
		Weighted average	**2.85**	**2.95**
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	2.55	2.32
		Design and implementation of Government activities	2.86	2.48
		Monitoring and evaluation	1.00	1.48
		Weighted average	**2.38**	**2.22**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	2.78	2.44
		Monitoring and evaluation	1.00	1.19
		Weighted average	**2.42**	**2.19**
Serbia's overall score for Dimension 6			**3.72**	**3.53**

State of play and key developments

Legal and regulatory framework

Serbia has a well-developed legal framework for secured creditors, including out-of-court settlements. Court processes appear to have become more efficient in recent years, although concrete legal changes are yet to be seen to accelerate enforcement procedures, which remain a bottleneck. Serbian banking regulations are overall in line with Basel II and Basel III recommendations.

Some progress has been made in implementing the National Bank's dinarisation strategy in recent years. Amid increasing macroeconomic stability, the interest differential of local currency loans has reduced, resulting in the first local currency bond, issued by the EBRD in 2016. The dinarisation of deposits has also accelerated. Despite these positive signals and some measures to reduce foreign currency lending, the impact of the dinarisation strategy has been limited to date, and euroisation levels remain systemic at around 70% of the loan portfolio. This can pose a particular problem for SMEs, which are more likely than large companies to be unhedged against foreign exchange risks. Further efforts are required to reduce the high level of foreign exchange-indexed loans, as prioritised in the new Policy Coordination Instrument agreement between Serbia and the International Monetary Fund in 2018.

The infrastructure around credit history is solid. A cadastre and a registration system for pledges over movable assets have been in place for several years, and are largely functional and actively used by the local banking system, even though not fully available online. A privately run credit information bureau has been in place since 2004, covering 100% of the Serbian adult population. However, due to Serbia's unique regulation that requires personal consensus to any credit search, public availability is limited, and access to non-bank financial institutions also remains limited.

Some progress has also been made in strengthening capital market supervision, as the capital market law was amended in 2016 to reduce risks of market manipulation. While no dedicated regulation is yet in place to support SME access to capital markets, the Belgrade Stock Exchange is increasingly focused on supporting SME listings, and has been running an SME pre-listing support programme in collaboration with the EBRD since 2018 to increase SME listing capacity. However, further awareness building is needed about the benefits of capital markets finance, including a South East Europe link, to fully exploit capital market finance opportunities for SMEs.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Bank lending remains the dominant source of private sector financing, at 43% of GDP in 2017. However, the overall share of banking sector assets in the financial sector has fallen slightly, which suggest an increasing up-take of non-bank financial instruments. In addition, SME lending in particular has accelerated in light of decreasing interest rates and the banking system's overall liquidity. Progress has also been made in reducing the systemically high levels of non-performing loans (NPLs), a key constraint for private sector lending identified in the 2016 assessment (Figure 18.1) for statistical data on SME financing in Serbia). As Serbia is actively implementing an action plan with support from the EBRD, the International Finance Corporation, International Monetary Fund and the World Bank, NPL levels have fallen significantly – from over 20% in 2015 to below 10% at the end of 2017, which is expected to have further spillover effects and reactivate banks' lending appetite in the short to medium term. Serbia has also re-introduced a credit guarantee scheme during the assessment period, launched in 2018 with support of the EU-backed West Balkans Enterprise Development and Innovation Facility (WB EDIF). This triggered considerable interest in the local banking system and is expected to be scaled up in the future.

No progress has been made to facilitate microfinance activities. The government's SME Development Strategy and Action Plan (2015-2020) envisaged establishing a legal framework for non-bank, non-deposit credit institutions with a deadline of 2016; however, a working group that was set up by the National Bank of Serbia in early 2016 has not yet made any recommendations.

A legal framework for leasing and factoring is in place, and these types of financial product have increased in use over the last few years. In 2016, the EBRD made a number of recommendations for reforming the existing factoring legislation, in addition to highlighting obstacles such as the Act on Late Payments in Commercial Transactions and Anti-Money Laundering requirements. The Law on Factoring was amended in 2018, introducing new requirements for end-borrowers; however, further clarification is required to define local providers' obligations to perform due diligence on customers, and the Serbian Government is yet to take comprehensive action in response to the recommendations.

Efforts have been made to build an environment conducive to innovation in recent years. As a result, venture capital (VC) activities have gained some momentum. While a dedicated legal framework is not yet in place and VC funds are unable to register in Serbia, they are allowed to operate under a broader law on investment funds. Since the previous SME Policy Index, the WB EDIF's Enterprise Innovation Fund – to which Serbia has also contributed – has become fully operational. It has made seven investments into Serbian start-ups, which is more than half of the total number of the fund's investments. This suggests an overall improvement in the innovation capacity of Serbian enterprises and a return of investors' appetite for the Serbian economy, but there is need to sustain efforts in the medium term, including enhancing operations of the Serbian business angel network.

Financial literacy

Serbian SMEs have one of the highest levels of financial literacy in the Western Balkan region, though it continues to be well below those of European peers. The Financial Literacy Strategy of the National Bank of Serbia focusses on educating the wider population. It runs a website, Tvoj novac,[17] which provides information about types of financial product. There are also plans to launch a pilot project in collaboration between the Ministry of Education, Science and Technology and the payment cards provider Visa, aimed at including financial literacy in the national curriculum. Focusing specifically on financial awareness of the private sector economy, the Chamber of Commerce and Regional Development Agencies also provide financial management training throughout the economy, and the Serbian Banking Association actively promotes financial awareness.

The way forward for Dimension 6

Progress has been made to facilitate SME access to finance in recent years, but momentum should be maintained to sustain access to credit and to increase the resilience of local financial markets.

- **Step up implementation of the dinarisation strategy**. Exchange rate risks persist due to the continuing euroisation of loans, especially for smaller businesses. More concrete and effective measures to increase local currency lending in line with the government's dinarisation strategy with the National Bank of Serbia would be important.
- **Diversify sources of finance for SMEs**. To broaden the funding sources available to SMEs, the government should introduce legislation to enable lending by microfinance institutions. It should also consider a reform of the legal framework for factoring in light of the EBRD's recommendations. Introducing legislation more conducive to VC operations within Serbia could further help to facilitate equity-based financing. International financial institutions are ready to provide support in all these areas.

Standards and technical regulations (Dimension 7)

Serbia's score of 4.55 in the area of standards and technical regulations is the highest in the Western Balkans – only Turkey fares better (Table 18.13). Serbia is also one of the two economies that improved its overall score compared to the 2016 assessment (Figure 18.1). The increase from the score 4.33 to 4.55 largely stems from improvements achieved in overall co-ordination and alignment with the EU *acquis*, particularly in technical regulations and market surveillance.

Table 18.13. Scores for Dimension 7: Standards and technical regulations

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures		4.00	3.12
	Sub-dimension 7.2: Harmonisation with EU *acquis*	Technical regulations	5.00	3.87
		Standardisation	4.50	3.97
		Accreditation	4.92	4.53
		Conformity assessment	4.73	3.65
		Metrology	5.00	4.47
		Market surveillance	4.60	4.43
		Weighted average	**4.79**	**4.15**
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	4.83	4.24
		SME participation in developing standards	3.50	2.57
		Financial support to SMEs	3.60	2.39
		Weighted average	**3.98**	**3.07**
Serbia's overall score for Dimension 7			**4.55**	**3.83**

State of play and key developments

Overall co-ordination and general measures

The Ministry of Economy is responsible for the overall policy and co-ordination of technical regulations and quality infrastructure, and its "Strategy for Improving the Quality Infrastructure System in the Republic of Serbia 2015-2020" constitutes the overarching policy document.

Since 2011 an online portal, TEHNIS, has provided all the relevant information for enterprises on the technical regulations for placing products on the domestic, European and international markets (Box 18.8). In addition, the Chamber of Commerce of Serbia runs a quick and easy online tool that allows manufacturers to check if their products comply with the relevant regulations. These cover all the EU Directives under the New Approach[18]. Both of these initiatives are instrumental in supporting SMEs that usually lack the time and resources to gather the relevant information and apply them to their operations.

Box 18.8. Serbia's information portal TEHNIS

In most of the economies, information on export requirements and compliance mechanisms, where available, are fragmented. There are no dedicated websites that include all the necessary information and guidance for SMEs to navigate through the regulations and standards requirements. Equally, SMEs often lack information on the support schemes available to them. A well-designed and comprehensive pool of information would therefore benefit SMEs, which often do not have time, resources or the personnel capacity to gather information from various sources, institutions and websites. This poses another challenge to SMEs when accessing international markets and upgrading their production.

A practice that stands out in the region is the TEHNIS website in Serbia, run by the Ministry of Economy (Sector of Quality and Product Safety). This portal not only includes an overview of relevant regulations but also information on how to comply with them. The website covers information on all elements of quality infrastructure; and also contacts, brochures, events and the latest news. Legislation is presented thematically, providing information about the respective directives, such as in the field of machinery, with corresponding guides on how to comply with the requirements. TEHNIS also allows companies to assess legislation in preparation, conformity assessment bodies and recognised foreign certificates.

Source: Ministry of Economy (2018[37]), *Sector for Quality and Product Safety*, www.tehnis.privreda.gov.rs.

Harmonisation with the EU acquis

National legislation has been further amended to reflect EU sectoral legislation, and a regularly monitored and evaluated strategy guides the transposition of EU legislation. The training needs of institutions implementing technical regulations were assessed in Serbia at the beginning of the transposition process, and the staff trained accordingly.

Serbia has also made significant progress in transposing the European standards into national ones. As of September 2018, the adoption rate for European standards had reached 98%. The Institute for Standardization of Serbia (ISS) is operational and adequately staffed, with 61 employees as of February 2018. ISS became a full member of the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC) on 1 January 2017. Serbia is also a full member of the International Organization for Standardization (ISO), the International Electrotechnical Commission, and the European Telecommunications Standards Institute.

Serbia has satisfactory physical capacity and competence to carry out conformity assessment in priority sectors, and enough accredited conformity assessment bodies (OECD, 2018[10]). Currently, there are 628 accredited conformity assessment bodies (CABs), 49 of which are designated (compared to 37 in 2016). These bodies are easily accessible for SMEs through an online register on the national accreditation body's website, which provides detailed information on the types of activities they undertake, e.g. testing, inspection and certification.

The Accreditation Body of Serbia (ATS) is adequately staffed and operational, with 40 full-time employees along with 350 external auditors and technical experts. Its staff regularly undergo technical skills development trainings. However, with the significant increase in the number of applications for accreditation in 2017 – by more than 20% - and the expected trend of a similar increase in the coming years, ATS foresees a growing need for a larger number of employees, auditors and technical experts.

ATS is a member of the European co-operation for Accreditation (EA) and, having successfully undergone a peer evaluation in 2018, its status as a Multilateral Agreement (MLA) signatory will continue for the next four years. Of the signatories in the Western Balkans region, Serbia's EA MLA covers the greatest number of accreditation areas, including calibration, testing, inspection, products certification, management systems certification and certification of persons. Serbia is also a signatory to the International Accreditation Forum MLA, and the International Laboratory Accreditation Cooperation Multilateral Recognition Agreement. This means that conformity assessments carried out by accredited Serbian CABs are accepted across borders, relieving SMEs from the burden and cost of double assessments when exporting.

In the field of metrology, harmonisation with key EU regulations continues, and six new by-laws were published in 2017 to transpose the European Directives. In 2018, rulebooks on non-automatic weighing and measuring instruments were adopted with the aim of harmonising national legislation with the EU directives. The Directorate of Measures and Precious Metals has 93 employees, but still suffers from a lack of metrology engineers and technicians. It is currently drafting a strategy and new action plan for the harmonised and non-harmonised areas to meet requests from the European Commission. It is well integrated into the international metrology structure, as a member of the European Association of National Metrology Institutes, the International Bureau of Weights and Measures and the International Organization of Legal Metrology, as well as an associate member of the European Cooperation in Legal Metrology.

Market surveillance activities fall under the responsibility of the Ministry of Trade, Tourism and Telecommunications, and are monitored by the Product Safety Council. In 2017, the market surveillance authorities carried out 5 254 inspections on compliance and product safety, withdrawing 1 228 hazardous products from the market. However, a legal basis has not yet been created for product contact points (PCPs) to work in compliance with the EU *acquis*. EU regulation prescribes the creation of product contact points to provide information on the technical rules for a specific product in the national territory, and whether the product is subject to prior authorisation under national laws. It also gives information about the principle of mutual recognition and the contact details of the competent authorities. PCPs also provide information on the available remedies in the event of a dispute between the competent authorities and an enterprise.

SME access to standardisation

Serbia's performance in providing information on standards and raising awareness of their benefits is the highest among the WBT economies.

The ISS web page regularly provides information on new standards developed by CEN and CENELEC. It also publishes handbooks in Serbian on implementing standards and organises regular meetings with SMEs to provide in-depth information on the newly adopted or developed standards in co-operation with the Chamber of Commerce. Most notably, ISS has been running a service called "Open Door for SMEs" that allows SMEs to benefit from free consultation with the ISS staff whenever they require assistance on implementing standards.

Although several measures are in place to increase SME participation in developing new standards, participation remains below par. ISS extends invitation to SMEs through phone calls to join its technical committee meetings, and organises them in different cities across the economy. However, Serbia has not implemented any financial measures or ICT-based innovative tools which aim to facilitate SME participation in developing standards.

In terms of supporting SMEs in acquiring standards, Serbia is one of the only two WBT economies along with Turkey that offers standards to SMEs at reduced prices. ISS also prepares standard packages for different areas (e.g. quality management), which are available in electronic format and sold at prices that are significantly lower than the aggregate price of individual standards. In 2018, ISS compiled standards for information technology, and started offering two packages in that area.

SMEs can also benefit from financial support for implementing standards by the Development Agency of Serbia. SMEs can get reimbursed for up to 50% of the costs of implementing standards, and the certification or recertification of products.

The way forward for Dimension 7

Despite a number of improvements in this policy area and Serbia's solid position as the second-best performer in the WBT region, some challenges remain. These can be tackled through the following steps:

- **Explore collaboration with regional peers as a cost-effective way to ensure the provision of quality infrastructure services**. In Serbia and other Western Balkan economies, quality infrastructure bodies are either understaffed or their staff composition does not encompass an adequate number of engineers and technicians. As improvements in human resource capacities require considerable investments and tie up resources on a long-term basis, policy makers in Serbia should, together with their peers in the Western Balkans, aim at establishing quality infrastructure at regional level. Services that have a high cost but often a low demand in smaller economies would benefit from economies of scale, if their geographical coverage is enhanced so that they serve regionally. Moreover, quality infrastructure bodies should explore opportunities to diversity their revenue sources and roll out additional services. These would support them in achieving a level of financial independence.
- **Establish product contact points.** Serbia is yet to establish product contact points, which should provide information about technical rules on products and implementing the mutual recognition principle to enterprises and competent authorities.
- **Increase the number of standards in the Serbian language**. The adoption of standards is generally undertaken using the cover method, i.e. translating the standard's cover page only – posing a challenge to their wider adoption by SMEs. Given the linguistic similarities of the region, Serbian authorities could consider collaborating with its regional peers in translating the EU standards.

Enterprise skills (Dimension 8a)

Serbia scores 3.95 in this dimension, putting it in the position of top performer in the region for enterprise skills (Table 18.14).

Table 18.14. Scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	Serbia	WBT average
Dimension 8a: Enterprise skills	Planning and design	4.50	3.38
	Implementation	4.00	2.83
	Monitoring and evaluation	3.00	2.29
	Weighted average	**3.95**	**2.87**
Serbia's overall score for Dimension 8a		**3.95**	**2.87**

State of play and key developments

The Ministry of Economy implements SME support measures for skills development under the Economic Reform Programme (2017-2019) financed by the state budget and co-financed by donor funds. A major support package for SMEs is included in the Programme of Standardised Set of Services for SMEs operated by the Development Agency of Serbia. The challenge Serbia will face is addressing skills needs under the upcoming Smart Specialisation Strategy, which will require flexibility in education and training provision with actions that particularly target the micro and small spectrum of SMEs in the smart specialisation priority areas.

The Strategy for Supporting the Development of Small and Medium Enterprises, Entrepreneurship and Competitiveness 2015-2020 and the Implementation Action Plan gives focused attention to the specific quality assurance measures of the training supply. This includes the accreditation system of training providers and the training needs analysis (TNA), which has become a regular activity since the last SBA assessment, as part of the SME skills intelligence framework. The Serbian Chamber of Commerce and Industry's Educational Centre conducts an annual TNA for SMEs. Annual action plans for the upcoming year are based on the results of the analysis. The intelligence framework also includes a survey data, analysis of training and advice services to SMEs prepared by the Development Agency of Serbia, and the SME skills intelligence collected by the National Employment Office under the Annual Employment Plan. The RAS evaluation is applied to introduce improvements to the current training programme delivery and new training (e.g. e-business training). The Ministry of Economy, in co-operation with other institutions, prepares annual reports on SME support and reports on the implementation of SME strategy.

However, there is not enough integration of monitoring and evaluation efforts across the programmes and parts of government. There are many new programmes, such as those targeting e-business with the EU, but the monitoring and the data collection are carried out by different public agencies.

In terms of the scope and quality of SME training programmes, Serbia is one of the regional leaders. Its programme of Standardised Set of Services for SMEs is delivered by the accredited Regional Development Agencies and covers four groups of standardised services: information, training, consulting and promotions.

The programme includes a start-up component that comprises training, legal advice, guidance for beginners in business and grants for establishing businesses. Some programmes by RAS and the National Employment Office also provide pre-start-up training and are intended for potential entrepreneurs. There are programmes for various target groups of entrepreneurs: youth (e.g. the "Youth Caravan" by the Serbian Chamber of Commerce and Industry and the Youth Business Forum, financed by RAS); women entrepreneurs (e.g. "Support to Women Entrepreneurship by linking them to value chains" run by the Association of Women entrepreneurs and Serbian Chamber of Commerce and Industry and financed by RAS); training programmes for SME growth; investment readiness; digital skills for SMEs; and so on. Two modules under the Programme of Standardised Set of Services for SMEs aim at SMEs exporting for the first time, and those preparing for the EU Single Market. Other programmes have included Support to the Internationalization of Businesses, Entrepreneurs and Clusters in 2016 and an open public call to participate in the Programme of Support of Competitiveness, Productivity and Internationalisation of SMEs in 2018. Both gave additional incentives to SMEs who have the potential to trade with the EU Single Market. Information on these training programmes is available on the Development Agency of Serbia website.

The way forward for Dimension 8a

It is recommended that Serbia increases its focus in the next period on better co ordinating and consolidating the rich supply of training and support programmes required to increase the effectiveness and efficiency of government actions. Budget flows and institutional actors are numerous, and lack of oversight and co-ordination at the policy level might cause duplication and gaps in supply. The following actions are also important:

- **Strengthen the role of the Council for SMEs, Entrepreneurship and Competitiveness.** As an official co-ordination structure, the council can take up the role of overseeing, monitoring and evaluating all SME skills' development programmes and measures, as well as being responsible for effective co-ordination between different partners. The council's role could be strengthened to ensure better institutional sustainability of support efforts and evaluation of the impact of government's investment into SME skills support.
- **Consolidate all available monitoring and evaluation data.** The monitoring and evaluation results from different, parallel programmes should be put together to inform policy analysis and evaluate the quality, effectiveness and efficiency of implementation measures.
- **Prepare evaluation reports**. While new programmes are being developed, regular evaluation should be a mandatory feature of their design. It is crucial to produce regular reports summarising the evaluation results and make them publicly available.

Innovation policy (Dimension 8b)

Serbia is one of the better-performing economies in the WBT region in terms of how innovation policy for SMEs is designed and implemented. With a score of 3.33, it is only slightly behind North Macedonia (3.34) and Turkey (4.08), whereas all other economies in the region score far below 3 (Table 18.15). Serbia's performance has slightly improved since 2016 (from 3.31; see Figure 18.1) and the economy has shown consistent efforts to improve innovation by SMEs since 2010.

Table 18.15. Scores for Dimension 8b: Innovation policy

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 8b: Innovation policy for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	3.60	**3.46**
		Co-ordination of innovation policy	3.67	2.97
		Implementation of innovation policy	4.14	3.04
		Weighted average	**3.88**	**3.15**
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.43	2.99
		Technology extension services for established SMEs	1.00	1.74
		Weighted average	**2.46**	**2.49**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	4.20	3.76
		Indirect financial support	1.00	1.38
		Weighted average	**2.92**	**2.81**
	Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	Innovation voucher schemes and cooperative grants	4.00	2.52
		Institutional infrastructure for industry-academia co-operation	3.00	2.72
		Intellectual property rights	3.50	3.00
		Weighted average	**3.50**	**2.70**
Serbia's overall score for Dimension 8b			**3.33**	**2.86**

State of play and key developments

Policy framework for innovation

Since the last assessment, Serbia has adopted a Research for Innovation Strategy (in 2016) and an associated action plan (in 2018). The government has in parallel launched work on the economy's first Smart Specialisation Strategy, with support from the EU Joint Research Centre (JRC). In 2017, the government established a Ministerial Council for IT and Innovative Entrepreneurship. Even though the council does not include private sector representatives, it has consulted broadly with companies, especially when developing measures to boost IT entrepreneurship – the council's key focus. Most importantly, Serbia has gone beyond relying on international financial institutions to support innovation, and in 2017 for the first time allocated significant budgetary resources for innovative enterprises. EUR 3 million was allocated to the Innovation Fund in 2017, which was doubled to EUR 6 million in 2018.[19]

The government is in the process of significantly modifying the entire legal framework for research and innovation. The key objective of the reforms is to switch to a new model of financing for research activities in the economy. The new model transitions from entirely project-based financing to a mix of highly competitive project-based financing and performance-based institutional funding. Public consultations for the new Law on Science and Research have been concluded and this draft law reflects the new financing model.

In addition, the new institutional framework foresees the establishment of a Science Fund as an implementing agency for funding research activities, thereby separating policy design from implementation in this area. A law on the Science Fund was adopted in December 2018 and work is in progress to set it up at the time of writing.

Government institutional support services for innovative SMEs

Even though many incubators exist across the economy, there is no coherent government programme to support incubators. Some financing is available through the Serbian Development Agency and through the Ministry of Education, Science and Technological Development, but these programmes operate with low budgets and there has been no evaluation of their effectiveness. However, the government announced the establishment of regional innovation centres in 2018, and has allocated about EUR 2 million for this purpose. Each individual centre can apply, through an open call for proposals, for support of up to 400 000 EUR.

Government financial support services for innovative SMEs

The Serbian Innovation Fund (IF) is the key implementing agency for innovation policy and has significantly increased its scope of operations since 2016. It continuously runs its two key financing instruments (mini grants of up to EUR 80 000 and matching grants of up to EUR 300 000). In 2017 for the first time, these programmes received budgetary support and are no longer completely dependant on Instrument for Pre-Accession (IPA) financing. The IF's capacities for operating the programmes and due diligence have increased. The institution remains devoted to independent and international evaluation processes in all its programmes.

SME and research institution collaboration and technology transfer

For the first time, Serbia has introduced specialised instruments to promote and support business-academia collaboration. In 2016 the IF introduced collaborative grants for joint business-academia projects (financing up to EUR 300 000) and launched innovation vouchers in 2017 with great success and interest from both the business community and academic partners (Box 18.9). A new round of both instruments was launched in October 2018. Finally, the IF also runs a technology transfer facility which provides both expertise and funding to researchers wishing to commercialise their technologies. So far, there are 19 technologies in the pipeline and 3 technology transfer deals have been made through the support of this facility. Further funding is available to support new projects.

Infrastructural support for business-academia collaboration is also being improved in Serbia. Since 2016, the Belgrade Science and Technology Park has become fully operational and houses a large number of tech companies and start-ups. Similar institutions are being constructed in Novi Sad, Nis and Kragujevac, as the key university centres.

Box 18.9. Fostering industry academia collaboration in Serbia

While successfully piloting its first two grant programmes for innovative companies, the Serbian Innovation Fund recognised that over 30% of all project proposals had included some form of co-operation with R&D institutions. In response, the fund designed a new grant programme, the “Collaborative Grant Scheme for R&D Organisations and Private Sector Enterprises”, with the aim to encourage SMEs and public sector R&D institutions to engage in joint scientific research and development projects. The programme, launched in 2016, is supported with EUR 2.4 million in EU IPA funds, and an additional EUR 1 million from the Ministry of Education, Science and Technological Development of the Republic of Serbia.

Under the programme, the Innovation Fund helps fund commercially oriented research and development projects by co-financing up to 70% of the cost, with a cap of EUR 300 000 per project, helping to significantly reduce the financial risk of possible failure. Funds are disbursed on a quarterly basis against deliverables, thereby ensuring transparent financial management of the grant financing and procedural compliance.

The selection of projects is done through a highly competitive international, independent and meritocratic two-step evaluation process, including both technical peer reviewers and a five-member investment committee with ample international expertise in technology and investments.

During the pilot, the Innovation Fund received 96 applications, greatly exceeding the originally expected turnout. Of these, 28 projects were pre-selected for consideration, and 14 projects were awarded financing with a total amount of EUR 3 million. This was complemented with an additional EUR 1.37 million in private-sector co-financing. By mid-2018, after approximately 1.5 years of development, five projects had already resulted in new developed products, and four projects had seen the successful adoption of technology transfer practices.

The design and functionality of the programme is very much demand-driven and responds to a specific market failure identified during the implementation of previous programmes. In addition, the two-stage independent and international evaluation processes ensured a merit-based selection, based on the potential for commercialisation and market impact. Lastly, the programme has benefitted from a strong communication campaign, including the organisation of open days, and matchmaking activities between SMEs and R&D institutions, to raise awareness and encourage applications.

Source: Serbian Innovation Fund.

The way forward for Dimension 8b

It is evident that Serbia has continuously boosted efforts to support innovative SMEs in recent years, especially through direct financing instruments and policy measures to connect business and academia. However, some challenges remain. These can be addressed through the following measures:

- **Scale-up financing for innovative SMEs by introducing indirect financing instruments.** The demand for financing is still higher than its availability and innovative enterprises struggle disproportionally with business environment challenges that effect all SMEs. Moving forward, the economy could benefit from introducing indirect financing for innovative enterprises through, including but not limited to, tax incentives and demand-side policies (e.g. public procurement).

- **Further improve co-ordination of innovation policies.** Co-ordination can be further improved by bringing the private sector on board throughout the policy-making and implementation process. In addition, there is still lack of clarity surrounding the roles of the Ministerial Council for IT and Innovative Entrepreneurship, the National Council for Science and Technological Development, the Ministry of Education, Science and Technological Development and the Office of the Minister without Portfolio for Innovation and Technological Development.
- **Improve monitoring and evaluation (M&E) in all government programmes**. Even though M&E is built into the IF's programmes, it is often lacking from other government initiatives and would, if introduced properly, ensure optimal use of scarce government resources in the long term. Programmes run by the Ministry of Education, Science and Technological Development are often continued for many years without any analysis of their effects.

SMEs in a green economy (Dimension 9)

Serbian performance in the area of SME greening is quite low at 2.21 (Table 18.16), although it has slightly improved since the last assessment when it scored 2.08 (Figure 18.1). Even objectives for SME greening have become part of the SME strategy (2016-2020), they have not been translated into concrete actions. Along with Kosovo* and Albania, Serbia is among the three lowest-performing economies in the region.

Table 18.16. Scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.80	3.81
		Implementation	2.00	2.56
		Monitoring and evaluation	1.50	2.12
		Weighted average	**2.44**	**2.85**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	2.19	2.32
		Implementation	2.17	2.76
		Monitoring and evaluation	1.40	1.72
		Weighted average	**2.02**	**2.42**
Serbia's overall score for Dimension 9			**2.21**	**2.61**

State of play and key developments

Framework for environmental policies targeting SMEs

Environmental policies targeting SMEs are included in two national strategic documents. The first, the SME Development Strategy (2015-2020), underlines promotion of eco-innovation and resource efficiency (in particular energy efficiency) as two important objectives under the fourth pillar "Improving sustainability and competitiveness of SMEs". The measures supporting these objectives are the organisation of awareness-raising workshops on eco-innovation and the green economy, and the provision of expert support to those companies that are preparing eco-innovation project proposals for Horizon 2020[20] funding. The second document is the National Programme of Environmental Protection (2010-2020), which proposes incentives for companies that invest in cleaner production, waste management and other environmentally friendly practices. Nevertheless, no budgets have been mobilised within any ministry for realising these measures.

The Chamber of Commerce and Industry of Serbia (CCIS) advocates for SME greening and participates in the strategy development process. Since August 2016, the CCIS has been implementing a project aimed at promoting eco-innovation through providing training and grants to start-up companies and entrepreneurs to develop their "new green business ideas". In addition to this, in September 2018, the CCIS implemented a pilot programme "Academy for Circular Economy", which provided advice to SMEs on how to transition towards a more circular business model. The CCIS has also established an

* 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.

Eco-portal, which offers important information on environmental standards, eco labelling, and green public procurement. Another CCIS portal intended to provide information on energy-related greening issues - the "Green energy" Portal - is in the final stage of preparation.

Incentives and instruments for SME greening

Some positive developments as regards financial incentives have emerged since the last assessment. A new initiative – Green Innovation Vouchers – was launched in December 2017 by the EBRD and the Austrian DRIVE (Delivering Resource Efficiency InVEstments) Programme. This is a significant new financial instrument for SMEs, despite being one-off and donor-based. In addition, Serbia re-established its Green Fund at the beginning of 2017 – four years after the previous Environmental Protection Fund had been closed. However, for now, SMEs are not covered by the fund, since it focuses on large, mainly infrastructural, projects, such as the establishment of waste treatment facilities.

Some environmental criteria for procuring products and services are included in the Law on Public Procurement. The law is a prerequisite for using public procurement as a tool to foster eco-innovation and to increase the demand for environmentally friendly products and services. Specifically, under Article 13, consideration is given to the environmental impact of procured goods, highlighting that the government should opt for products and services which do not come at the cost for the environment and which contribute to energy savings. In certain cases, when financially justified, it is recommended that the costs of the entire life cycle of the procured product should be taken into account when making a procurement decision. However, there is no evidence been so far that this aspect of public procurement has been used to influence procurement decisions.

The way forward for Dimension 9

Despite some positive developments to include greening measures in the SME development strategy and some other national policies, their implementation remains limited. Limitations related to provision of SME greening instruments and incentives continue to persist. In order to move forward in this area and capitalise on the momentum, the government should consider the following:

- **Develop a co-ordination body or a unit for SME greening.** The SME greening measures foreseen in the SME strategy have not been implemented and no institution seems to be in charge of their realisation. This points to the rather ad-hoc nature of SME greening in Serbia, which is yet to be treated in a holistic and operationalised manner. Creating a body or a unit in charge of co-ordinating the implementation of SME greening measures could ensure that the measures foreseen in the strategy are translated into concrete actions. This role could be assumed by the Development Agency of Serbia (RAS), in close co-ordination with the Ministry of Environment. Whichever unit is entrusted with this task, it should ensure efficient and effective co-ordination among various government institutions to avoid duplication and to increase the uptake of the measures.
- **Target the demand side when developing SME greening policies,** i.e. focus on raising awareness and providing advice and guidance to SMEs in adopting environmentally sound practices. Activities aimed at raising awareness of the benefits and opportunities offered by going green are already part of the SME strategy. Further actions for their full realisation are needed in the upcoming

period. The government might opt for creating an information-based tool – an e-portal that would gather all information on greening practices (advice, informational and methodological materials) in one place. In addition to this, disseminating guidance through workshops and training, as well as successful case studies, could be an important step in this regard. In doing so, Serbia could work with international organisations and regional peers to identify examples of good practices and to enhance its own governmental capacity to support SME greening. Ireland sets a good example which could be emulated in Serbia (Box 18.10).

- **Enhance financial support to SME greening**. The new Green Innovation Voucher is an important step forward in supporting SMEs' transition to a green economy. However, this is a single, donor-driven initiative. Given the success of the initiative among SMEs, the government should consider transforming it into an annual programme financed by public funds. In addition to this, the newly established Green Fund could expand its scope, and include specific financial programmes to support SME greening as well. Moreover, the government might consider facilitating SMEs' access to green finance by introducing a dedicated loan guarantee scheme or subsidising interest rates for green project loans.

Box 18.10. Ireland's Green Business Programme

In 2011 the Environmental Protection Agency of Ireland formed the Green Business Programme under its National Waste Prevention Programme. Its aim was to deliver substantive resource efficiency improvements and cost savings through waste prevention and reductions in water and energy consumption. The programme is managed by the Clean Technology Centre (CTC) at the Cork Institute of Technology. The CTC, established in 1994, has a team of experts in resource efficiency and waste prevention.

The Green Business Programme provides a range of services to help SMEs increase their resource efficiency: site visits, guidance documents, online tools, seminars and community networking. By registering at www.greenbusiness.ie and using the online audit tools, users can start to measure their resource use and identify where savings could be made. Businesses can request a site visit, during which a Green Business Advisor will visit their premises and identify free and low-cost measures that will lead to cost savings. The service is free of charge, and operated by the CTC on behalf of the Environmental Protection Agency.

To date, with an annual budget of EUR 350 000, the Green Business Programme has visited 270 enterprises from a range of sectors (food processing, banking, public sector, small retailers) and identified an estimated EUR 10 million of savings for its member enterprises (EUR 6.2 million in energy, EUR 2.7 million in waste and EUR 1.2 million in water). The individual savings identified ranged from EUR 2 000 to EUR 200 000.

Some of the lessons learned from the experience of Green Business is that SMEs are not monitoring their utility costs and are unaware of the extent of waste. In addition, they are unaware of the opportunities to reduce waste at no cost or low cost as well as the opportunities to improve their bottom line and enhance their image. They often also have no awareness of the assistance available to improve their environmental performance.

The example of Green Business demonstrates how a cost-efficient and effective support mechanism can be designed, involving co-operation between the government and academia, which brings various benefits just by identifying potential savings that businesses are usually unaware of. The model underlines the importance of providing advice and guidance to SMEs to "go green".

Sources: Green Business Programme (2019[38]), *Green Business website*, http://greenbusiness.ie/; EPA (2014[39]), *Green Business Initiative*, www.epa.ie/waste/nwpp/gbi/#.W1opW_ZuI2w; EPA (2019[40]), *National Waste Prevention Programme*, www.epa.ie/waste/nwpp/.

Internationalisation of SMEs (Dimension 10)

Serbia's performance in providing support for the internationalisation of SMEs remains the highest amongst the Western Balkan economies at 4.02 (Table 18.17) and is outperformed only by Turkey. Since 2016, its score has slightly improved, from 3.70 (Figure 18.1). This improvement has been most notably due to the development of support programmes for integration into global value chains and the economy's incremental start on promoting the use of e-commerce by SMEs.

Table 18.17. Scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	4.67	4.86
		Implementation	4.91	4.24
		Monitoring and evaluation	3.71	3.01
		Weighted average	**4.60**	**4.18**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.60	3.58
		Implementation	4.43	3.08
		Monitoring and evaluation	2.33	1.76
		Weighted average	**4.06**	**2.97**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.29	3.45
		Implementation	2.00	2.26
		Monitoring and evaluation	1.00	1.36
		Weighted average	**2.19**	**2.44**
Serbia's overall score for Dimension 10			**4.02**	**3.43**

State of play and key developments

SMEs in Serbia have been modestly increasing their volume of exports in goods over the assessed period. However, their share of exports fell from 44.8% to 39.3% between 2014 and 2017. This was the second-lowest share in all the WBT economies after North Macedonia.[21] In the EU, the median value of exporting SMEs' share in the value of exported goods stood at 42% in 2016[22] (Eurostat, 2018[41]).

Serbia improved in the perceived efficiency of its customs clearance process in the World Bank Logistics Performance Index between 2014 and 2016, and was the third highest performer for this indicator in the WBT region in 2016 (World Bank, 2018[42]). Meanwhile, the import/export costs related to border compliance remained stable in Serbia between 2014 and 2017 (at USD 52/USD 47 respectively) (World Bank, 2018[42]). In 2017, the costs to import in terms of border compliance in Serbia were lower than the OECD average of USD 114, but higher than the EU average of USD 29, while the costs to export were much lower than the OECD (USD 153) and EU (USD 85) averages (World Bank, 2018[42])

Export promotion

Serbia's export promotion programmes targeting SMEs are directly linked to its SME Development Strategy 2015-2020. The Serbian Development Agency (RAS) has been the responsible institution for export promotion in Serbia since 2016 (overseen by the Ministry of Economy). Serbia is one of the only two WBT economies along with Turkey whose export promotion agency is not challenged by limited human and financial resources – 15 of RAS' 70 staff members have been dedicated to operate its two export promotion programmes.

RAS supports SMEs to foster their export competitiveness through two pilot programmes, the Export Promotion Programme and the Exporter Support Programme, rolled out from March 2017 to a value of RSD 105 million in total (around EUR 865 000). In creating these programmes, RAS held continuous informal consultations with its Chamber of Commerce.

The Export Promotion programme has two components: (1) support for individual exhibits at international fairs abroad, covering up to 50% of companies' individual costs with a total budget of RSD 40 million (around EUR 330 000); and (2) the organisation of company visits abroad, with RSD 20 million set aside (around EUR 115 000) to cover 50% of costs in each programme in the form of grants of up to RSD 1 million (around EUR 8 200). Between March 2017 and the time of writing, 63 SMEs received support to the value of RSD 37 million (EUR 305 000) for international business fairs while one SME received assistance for a company visit abroad (EUR 4 600) under this programme.

The Exporter Support programme, launched in March 2017, also has two components: (1) Preparing for the First Export (EUR 100 000), which provides co-financing to the value of 60% in grants for organising thematic workshops on exporting for SMEs; and (2) Improving the Capacity of Exporters (EUR 335 000), which provides 50% in co-financing to SMEs for implementing international standards, certification and re-certification, export plan development and providing tailored training for export and for designing of new products or new packaging design. Two SMEs received support for the first component, to the value of RSD 1.1 million (around EUR 9 000); while 65 SMEs were supported through the second component, for a sum of 30.3 million (around EUR 250 000). In terms of monitoring, RAS's programmes have yet to be evaluated.

RAS is also implementing the World Bank "Competitiveness and Jobs" project (March 2016 to June 2019), which also includes measures to support export promotion. Likewise, the Enterprise Europe Network supplements SME internationalisation in Serbia through a two-year budget of EUR 96 000 to support business meetings and international company visits and the provision of information on foreign markets.

In order to facilitate access to finance for export-oriented SMEs, Serbia has also made an effort to treat domestic SMEs equally to foreign companies. An amendment to the Law on Investment now enables domestic companies to receive the same subsidies for investment as foreign companies. Meanwhile, Serbia's Export Credit and Insurance Agency (AOFI) offers export credit insurance, financing, factoring, and guarantees to Serbian exporters. It plans to further tailor its financing instruments to better fit the needs of SMEs under its work plan for 2018.

Integration of SMEs into global value chains

There were no government programmes in place to support the integration of SMEs into global value chains at the time of the previous assessment. Serbia has now improved on this situation by introducing programmes to support SME integration into supply chains. RAS commenced its Support Programme for the Development of SME Competitiveness in March 2017 with a total available budget of RSD 100 million (around EUR 825 000) (RAS, 2017[43]). It has three main components: capacity building, support to business networks, and support for integration into supply chains. For this last component, the ongoing programme has provided financial support to 20 enterprises to the value of RSD 28.9 million (around EUR 240 000), mostly for purchasing equipment to support their upgrading within supply chains, and for harmonising their operations with international standards. Thus, indirectly, it can be argued that it helps SMEs reach the standards needed to supply to exporters (often multinational companies).

RAS has also provided support to clusters through three programmes. First, the above-mentioned Support Programme for the Development of SME's Competitiveness provided three clusters with a total amount of approximately RSD 3.6 million (around EUR 30 000) in 2017. Eligible activities for co-financing under the programme include procurement of joint production equipment; infrastructural furnishing of the existing or new joint workspace; renovation of the existing or new joint workspace; and development of joint production processes.

Second, cluster support is also provided through the Support Programme for the Development of Business Institutional Infrastructure, which also operates through a co-financing scheme of 50% grants and 50% private funds to provide support to develop clusters, and to stimulate business associations, among other activities.[23] In 2016, 14 clusters were supported with a total amount of RSD 33 million (around EUR 270 000). Finally, clusters can also benefit from other government-supported programmes, such as the Support Programme for the Promotion of Economic Development Projects.[24]

All in all, the state of cluster development in Serbia as perceived by private sector actors has improved according to the World Economic Forums' Global Competitiveness Index, though it is still perceived to be weaker than most economies of the WBT region (WEF, 2017[44]). Meanwhile, perceptions of local supplier quality have improved in the same index, though it also remains below the WBT average (WEF, 2017[44]).

Promoting the use of e-commerce

Serbia is strengthening the regulatory foundations of its digital operational environment. It undertook legislative reforms and adopted a new legal framework for e-commerce in October 2017, regulating electronic documents, electronic identification, electronic signatures and stamps, and the electronic submission of documents. Its passage is expected to significantly facilitate the regulation of e-commerce by providing it with a sound legal basis.

Serbia's framework for consumer protection is fully aligned with the EU, including alternative dispute resolution (OECD, 2018[10]). Additionally, its law on unauthorised advertising also makes reference to e-commerce practices (OECD, 2018[10]). Serbia also updated its Law on Payment Services in 2015 to allow Serbian companies to receive payments from abroad. However, establishing systems that enable online payments via credit card is still difficult, as noted in private sector interviews. In terms of initiatives to support e-commerce amongst SMEs, Serbia has a dedicated website which provides information about upcoming events and relevant legislation on e-commerce. The pilot e-business Development Programme which commenced in May 2014 has since phased out (Box 18.11).

The National Bank of Serbia collects data on the number and volume of e-payments. In 2017, the total value of payment transactions for the purchase of goods and services via the Internet was RSD 21.23 billion (around EUR 175 million)[25] (NBS, 2018[45]). Serbia has an active engagement in e-commerce: in 2018, it had the highest percentage of individuals purchasing on line out of the WBT economies, at 35%, though it still lagged behind the EU average (60%) (Eurostat, 2018[46]). It also had an exceptionally high percentage of SMEs selling online in 2018, at 26% compared to the EU average of 17% (Eurostat, 2018[46]).[26]

Box 18.11. The e-business Development Programme in Serbia

E-commerce previously gained traction in Serbia through the support of the EU. The pilot e-Business Development Programme ran from May 2014 for a duration of 30 months to the value of EUR 2.5 million, with the aim of providing technical assistance targeted at improving the business, legal and regulatory environment for e-commerce. Its actions included mapping out the legal and regulatory bottlenecks for e-commerce and producing recommendations for legislation in line with the EU legal framework.

The programme garnered the attendance of over 700 SME representatives at e-business training sessions. The issue of trust in the digital economy was brought into the limelight through 35 capacity-building workshops on digital economy, e-business, e-commerce, and combating of cyber-crime. A pilot e-Trustmark certificate which was awarded to 66 Serbian SMEs (up to November 2016). The e-Trustmark certificates' validity ran to the end of November 2017 and terminated along with the programme. The Center for Development of e-commerce and protection of consumers on the Internet from Novi Sad will continue accreditations and delivering the e-Trustmark to entrepreneurs in Serbia.

Source: Delegation of the EU to the Republic of Serbia (2016[47]), *E-business in Serbia Improves with EU support*, https://europa.rs/e-business-in-serbia-improves-with-eu-support/?lang=en.

The way forward for Dimension 10

The impact of programmes supporting the internationalisation of SMEs is yet to be felt, as most of them have only been launched since March 2017. Meanwhile, SMEs' value in exports is increasing at a slow pace and their overall share of exports is decreasing compared to large enterprises.

Private sector interviews indicate low awareness of the support programmes available for export promotion, as well as persistent difficulties arising from the administrative procedures required to export. Likewise, firms pointed to poor familiarity with the incentives for engaging in e-commerce. Moreover, they continue to experience difficulties in securing international transactions via online payments. Taking these into account, Serbia should consider the following recommendations:

- **Increase SMEs' awareness of the programmes available for export promotion**. Although RAS's website publishes all calls for its programmes, SME awareness of available programmes remains low, indicating a greater need for information to be "pushed" out to SMEs more effectively. Greater circulation of information can be achieved through online platforms which actively engage SMEs through the creation of online profiles and which promote networking amongst SMEs (EC, 2007[48]).
- **Design supplier development programmes.** Targeted support can be provided through coaching and mentoring SMEs in key areas such as design and production engineering. This may include sending in technical teams to advise on upgrading, as well as assisting SMEs in developing negotiating capacities with MNEs to establish and improve their supplier development programmes

(UNCTAD, 2010[49]) (OECD, 2008[50]). The provision of match-making services between SMEs and MNEs, which match MNE needs with SME competences, could particularly facilitate the formation of MNE-SME linkages. The comprehensive supplier development programme implemented by the Czech Republic represents a very successful example of strengthening the linkages between MNEs and SMEs, and in enhancing SMEs' capacities to export (see Box 18.12).

- **Aim for strong and comprehensive monitoring and evaluation** using concrete measures and key performance indicators to conduct long-term impact assessments of programmes. Focus on evaluation and incorporate feedback gained from private sector actors throughout the implementation of programmes to ensure relevant and tailor-made support that caters to SME-specific needs (OECD, 2018[51]).
- **Develop programmes that promote e-commerce**. Following its pilot "E-Business Development" programme, Serbia should aim to ensure continuous support to businesses engaging in e-commerce and continue to promote awareness of the benefits of e-commerce amongst SMEs and consumers.

Box 18.12. The Czech Republic's Supplier Development Programme

The Czech Supplier Development Programme in Electronics and Automotive was implemented by CzechInvest between 2000 and 2002. The programme aimed at improving the competitiveness of Czech SMEs to the level required to enter global value chains by becoming suppliers to MNEs. A related objective was to develop a local world-class supplier base.

A dozen MNEs were involved throughout the project and 45 SMEs received targeted training based on needs discovered during business reviews. The MNEs were closely involved from the outset. They were asked to nominate companies for the programme, although other sources were also used to identify companies with potential which had had no or little contact to date with MNEs. In total, 200 companies were reviewed in detail, of which 73 were invited to participate to achieve the programme target of 45 companies.

A two-day business review was undertaken in each of the 45 companies. This was based on the European Foundation for Quality Management model and looked at the whole business. In addition to focusing on the most important areas of performance to meet MNE requirements, the aim was to get participation and buy-in from company management and convince them of the value of a process, which would require a major commitment of management time if it was to be worthwhile.

The main output of the business review was a short-term (six months) self-improvement action plan. This was essentially about helping companies to help themselves, working with company management to benchmark them against MNEs' international standards and competitive requirements, and to review the way forward for their business. To help the companies implement their short-term action plans, a series of general workshops was held, focusing on the key areas for improvement identified in the first round of business reviews. These tended to be in softer management skills and awareness rather than technical skills; the two broad themes of the workshops were strategy and change, and operational efficiency.

At the end of the six months, a second round of one-day business reviews was undertaken, solely by the external assessors, to gather the information needed to select 20 companies for the final intensive support phase. The project established a selection system that was as objective and transparent as possible, balancing companies' current performance and capability, and their commitment and capacity for improvement demonstrated between the two business reviews.

This final phase was the crucial stage in developing the companies to meet internationally competitive standards. It provided individually tailored and targeted one-to-one support, as opposed to the more general support given up to that point. This was delivered by an individual mentoring team for each company, consisting of an EU expert lead mentor and a Czech independent consultant (thus ensuring the transfer of skills and experience for future programmes, as well as giving the advantages of local knowledge and language). This phase lasted six months within the formal pilot, but continued thereafter.

All the business reviews and other support were free, but companies joining this stage of the programme were charged a small standard fee of CZK 50 000 (Czech koruna, about USD 1 600 at the time), to establish the principle of charging in line with best EU practice – where similar support was normally provided on a matched funding basis. All companies in the programme continued to receive general support.

The Czech Supplier Development Programme succeeded in strengthening local companies' skills and enhancing the benefits of FDI to the local economy. Suppliers have upgraded their processes and products. The business reviews showed an increase in company performance in the areas required to meet MNE requirements. An evaluation 18 months after the end the programme surveyed all 45 companies participating in the pilot. It found that 15 companies had gained new business which they attributed to the programme, with these contracts worth USD 46 million for the period 2000-03. Four companies had also found new customers abroad, and three had obtained contracts for higher value-added content. The share of components sourced from Czech companies by the MNEs participating in the programme increased from a range of 0%-5% at the start to 2.5%-30% by 2004.

Source: WEF (2016[52]), *Manufacturing our Future: Cases on the Future of Manufacturing*, http://www3.weforum.org/docs/GAC16_The_Future_of_Manufacturing_report.pdf.

Conclusions

Serbia has made major strides in implementing the SBA principles since 2016. Its institutional framework has become more conducive to SMEs' interests, and the importance of entrepreneurship in driving economic growth has been increasingly mainstreamed in the policy-making process. Moreover, the number of publicly funded support measures tailored for SMEs has proliferated, and more public resources, both financial and human, have been allocated to these measures.

All these improvements have helped Serbia to become one of the best performers of the seven economies assessed. Yet, certain SBA principles still warrant immediate attention. To level the playing field between SMEs and larger enterprises, public procurement policies need to be better designed, making it even more straightforward to submit tenders and requests to participate. Greening policies targeted at enterprises are in their infancy, at best. Serbia should build greater awareness that resource efficiency measures are effective in boosting SMEs' competitiveness, beyond their impact on the environment.

As Serbia has moved a long way in designing and implementing various programmes and policies targeted at SMEs, it is a good point at which to initiate an in-depth evaluation. This evaluation would not only justify the allocation of significant public resources for SME development, but would also be pivotal in adjusting the current set of services with a view to increasing their efficacy and impact.

Notes

[1] The WBT region refers to the six pre-accession Western Balkan economies (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) and Turkey. Unless otherwise specified, reference to the "region" in this publication implies these seven economies.

[2] For more information about the private sector interviews, see Annex C.

[3] Smart specialisation originated in the EU as a concept for stimulating innovation-driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services and, ultimately, economic growth. Human capital, knowledge dissemination and transfer, as well as support to entrepreneurship are all key elements in successful implementation of smart specialisation strategies. For more information, please see Chapter 9 on enterprise skills and Box 10.1 in Chapter 10 on innovation policy for SMEs.

[4] In EU countries, SME Envoys are appointed by the national government to report on the uptake of the SBA and to promote SMEs interests through government bodies. Although these SME envoys do not exist in pre-accession countries, Serbia's Ministry of Economy acts as the SBA Co-ordinator responsible for implementing the SBA principles.

[5] ETF defines entrepreneurial learning as: "All forms of education and training (formal, informal and non-formal) which contribute to an entrepreneurial spirit and behaviour with or without a commercial objective".

[6] The Law on Higher Education provides new principles for higher education in Serbia. These will be gradually introduced to support better links with pre-university education, promote co-co-operation with employers and the industrial sector, strengthen the innovative and entrepreneurial component of higher education, and improve the relevance of higher education to both society's and labour market's needs

[7] One of the two objectives of the project is to strengthen the entrepreneurial component of higher education, which will lead to the introduction of entrepreneurial modules into study programmes and the development of entrepreneurial skills among university graduates. The project has also contributed to policy development. To give just one example: it provided inputs into the new Law on Higher Education, aiming to educate a creative and entrepreneurial young generation that would acquire knowledge on a lifelong basis.

[8] These accredited programmes can be found in the *Catalogue of Continuing Professional Development of Teachers, Educators and Professional Associates* for the school year 2016/2017 and 2017/2018. Information on implementation and training quality, as well as the number of trained teachers, is available at the Institute for the Advancement of Education, Centre for Professional Development of Teachers (www.zuov.rs/programi1/Odrzani.aspx).

[9] Among the strategic objectives of the Strategy for Gender Equality 2016-2020 there are several of critical importance for women's entrepreneurship: promotion of a culture of gender equality, change of traditional gender patterns, improvement of the status of women, systematic integration

of gender mainstreaming into decision making, as well as implementation and monitoring of public policies. The Ministry of Economy, in co-co-operation with policy implementing institutions, runs a gender sensitivity check of existing programmes.

[10] To give just two examples of successful women's entrepreneurship promotion and good practice sharing activities in Serbia: the gender-based mapping of organic and traditional food producers in Western and South Serbia, and the "Girls Day" which provided an opportunity for over 7,700 female students of final years of primary and secondary schools from fifty towns across Serbia to visit over 100 companies, schools and faculties.

[11] All relevant laws and amendments can be found on the Bankruptcy Supervision Agency web site: http://alsu.gov.rs/dokumenta/zakoni/.

[12] A debtor's estate is the property that creditors can take while the debtor is in bankruptcy.

[13] EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.

Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

[14] The SME Test analyses the possible effects of EU legislative proposals on SMEs. See https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/sme-test_en.

[15] See https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2014.257.01.0073.01.ENG.

[16] See http://www.pks.rs/SADRZAJ/Files/CMIP/vodiceng%20maj%202014.pdf.

[17] For more information, see www.tvojnovac.nbs.rs.

[18] See https://www.cen.eu/work/supportLegislation/Directives/Pages/default.aspx

[19] In addition, the Ministry of Education, Science and Technological Development, through 8 published public calls so far, supported 397 innovation projects and 51 infrastructure projects in the total amount of EUR 10.8m (period 2007-2017).

[20] Horizon 2020 is the biggest EU-funded Research and Innovation programme covering the period from 2014 to 2020. The overall objective of the programme is to ensure Europe produces world-class science, removes barriers to innovation and makes it easier for the public and private sectors to work together in delivering innovation. With a nearly EUR 80 billion of funding it promotes research and innovation, by facilitating the commercialisation of innovative ideas from the lab to the market. In particular, Horizon 2020 provides grants to research and innovation projects through open and competitive calls for proposals. Legal entities from any country are eligible to submit project proposals to these calls. Participation from outside the European Union is explicitly encouraged.

[21] Due to unavailability of more recent data, this statement refers to North Macedonia's 2016 data for SMEs share of exports (which was at 31.6% that year).

[22] This refers to the 2016 median value of 27 EU Member States (the EU-28 minus Malta) and includes intra EU and extra EU trade.

[23] The activities covered by the programme are as follows: the operationalisation of science and technology parks and incubators, development of support services for innovative SMEs, joint science-economy projects, development of clusters, stimulation of business associations, and creation of value chains.

[24] Launched in 2017, the programmes targets the promotion of entrepreneurship and best practices with a focus on youth and women's entrepreneurship; the preparation of analyses and research in order to increase the competitiveness of SMEs; developing new services for SMEs; and the improvement of existing services for SMEs. In 2017, 9 clusters were supported to the value of RSD 14.6 million (EUR 123 000).

[25] Values were converted according to the official 2017 exchange rate of the National Bank of Serbia.

[26] The Eurostat indicator refers to SMEs, excluding in the financial sector, employing between 10 and 249 employees.

References

Delegation of the EU to the Republic of Serbia (2016), *E-business in Serbia Improves with EU support*, Delegation of the EU ro the Republic of Serbia, https://europa.rs/e-business-in-serbia-improves-with-eu-support/?lang=en (accessed on 10 January 2019). [47]

Dokmanovic, M. (2016), *Gender Analysis for Serbia*, European Commission, http://europa.rs/files/Gender_Equality/Gender-Analysis-Serbia-dec-2016.pdf. [24]

EBRD (2018), *Transition Report 2018-19: Country Assessments*, European Bank for Reconstruction and Development, London, https://2018.tr-ebrd.com/downloads/ (accessed on 19 November 2018). [11]

EBRD (2017), *Transition Report 2017-2018: Sustaining Growth*, European Bank for Reconstruction and Development, London, http://2017.tr-ebrd.com/countries/. [7]

EC (2018), *A Credible Enlargement Perspective for and Enhanced EU Engagement with the Western Balkans*, European Commission, Brussels, https://eeas.europa.eu/regions/western-balkans/39711/credible-enlargement-perspective-and-enhanced-eu-engagement-western-balkans_en (accessed on 10 October 2018). [20]

EC (2018), "Commission assessment: Economic Reform Programme 2018-2020 of Serbia", *Commission Staff Working Document*, No. SWD(2018) 132 final, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_serbia.pdf. [8]

EC (2018), *Economic Reform Programmes: Western Balkans and Turkey*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf. [14]

EC (2018), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", *Technical Paper*, No. 028, European Commission, Brussels, https://ec.europa.eu/info/publications/economy-finance/eu-candidate-countries-potential-candidates-economic-quarterly-cceq-3rd-quarter-2018_en. [3]

EC (2018), *Serbia 2018 Report*, European Commission, Strasbourg, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-serbia-report.pdf. [18]

EC (2018), *Small Business Act – Database of Good Practices*, http://ec.europa.eu/growth/tools-databases/sme-best-practices/SBA/index.cfm?fuseaction=practice.detail&gp_pk=7750&tr_pk=6710. [26]

EC (2017), *2017 SBA Fact Sheet: Serbia*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/serbia_sba_fs_2017.pdf. [27]

EC (2007), *Supporting the Internationalisation of SMEs: Good Practice Selection*, European Commission, Brussels, http://ec.europa.eu/growth/content/supporting-internationalisation-smes-good-practices-brochure-0_en. [48]

e-INSPEKTOR (2018), *e-INSPEKTOR Srbija*, e-INSPEKTOR website, http://www.e-inspektor.rs/. [53]

e-INSPEKTOR (2018), *ПРЕДСТАВЉЕНА ТЕСТНА ВЕРЗИЈА СОФТВЕРА Е-ИНСПЕКТОР [Test Version of the e-INSPEKTOR Software Presented]*, e-INSPEKTOR website, http://inspektor.gov.rs/vest-detalji.php?idvesti=269. [54]

EPA (2019), *National Waste Prevention Programme*, http://www.epa.ie/waste/nwpp/. [40]

EPA (2014), *Green Business Initiative*, http://www.epa.ie/waste/nwpp/gbi/#.W1opW_ZuI2w. [39]

Eurostat (2018), *Eurostat (database)*, European Commission, https://ec.europa.eu/eurostat/data/database (accessed on 14 September 2018). [46]

Eurostat (2018), *Eurostat Statistics Explained: International Trade in Goods by Enterprise Size*, European Commission, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_trade_in_goods_by_enterprise_size#Overview (accessed on 14 January 2019). [41]

Eurostat (2018), *National Accounts (Including GDP) (dataset)*, European Commission, https://ec.europa.eu/eurostat/web/national-accounts/data/database. [12]

Green Business Programme (2019), *Green Business website*, http://greenbusiness.ie/. [38]

ILO (2018), *ILOSTAT (database)*, International Labour Organization, https://www.ilo.org/ilostat. [2]

Lazarević, L. (2008), *How to Start Your Own Business in Serbia: Lump Sum Taxation*, Mena Consulting, http://www.mena.rs/kakopoceti/eng/lumptaxation.html. [34]

Ministry of Economy (2018), *Sector for Quality and Product Safety*, Sector for Quality and Product Safety website, http://www.tehnis.privreda.gov.rs. [37]

Ministry of Economy (2018), *Извештај о малим и средњим предузећима и предузетништву 2017 (Report on Small and Medium-Sized Enterprises in Serbia for 2017)*, SME and Entrepreneurship Department, Ministry of Economy, Belgrade. [23]

Ministry of Finance (2018), *Tekuca Makroekonomska Kretanja (Current Macroeconomic Movement)*, Ministry of Finance, Belgrade, http://www.mfin.gov.rs/UserFiles/File/tabele/2018%20septembar/tekuca%20makroekonomska%20kretanja%2010092018.pdf. [6]

NBS (2018), *Overall Payment System Indicators*, National Bank of Serbia, https://www.nbs.rs/internet/english/35/statistika/index.html (accessed on 14 January 2019). [45]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook*, Competitiveness and Private Sector Development, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264250529-en. [10]

OECD (2018), *Financing SMEs and Entrepreneurs 2018: An OECD Scoreboard*, OECD Publishing, Paris, https://dx.doi.org/10.1787/fin_sme_ent-2018-en. [25]

OECD (2018), "Monitoring and evaluation of SME and entrepreneurship programmes", *Policy Note*, SME Ministerial Conference 22-23 February 2018, Mexico City, https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Parallel-Session-6.pdf (accessed on 30 August 2018). [51]

OECD (2018), *Unemployment Rate (dataset), OECD Data*, OECD Data, https://data.oecd.org/unemp/unemployment-rate.htm. [9]

OECD (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/9789264254473-en. [19]

OECD (2015), *Taxation of SMEs in OECD and G20 Countries*, OECD Tax Policy Studies, No. 23, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264243507-en. [35]

OECD (2008), *Enhancing the Role of SMEs in Global Value Chains*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264051034-en. [50]

Open Government Partnership (2018), *Serbia*, Open Government Partnership website, https://www.opengovpartnership.org/countries/serbia. [30]

PPS (2018), *Business Environment Improvement Project 2018-2021*, Public Policy Secretariat, https://rsjp.gov.rs/%D1%83%D0%BD%D0%B0%D0%BF%D1%80%D0%B5%D1%92%D0%B5%D1%9A%D0%B5-%D0%BF%D0%BE%D1%81%D0%BB%D0%BE%D0%B2%D0%BD%D0%BE%D0%B3-%D0%BE%D0%BA%D1%80%D1%83%D0%B6%D0%B5%D1%9A%D0%B0-%D1%83-%D1%81%D1%80%D0%B1%D0%B8/. [28]

PPS, NALED, USAID (2018), *Javno-Privatni Dijalog za Razvoj (Public Private Dialogue for Growth)*, National Alliance for Local Economic Development, Belgrade, http://www.jpd.rs/o-projektu.php. [29]

RAS (2017), *Create Life: Public Call for Participation in the Support Program for the Development of SMEES' Competitiveness | Ras*, https://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-participation-in-the-support-program-for-the-development-of-smees-competitiveness (accessed on 22 January 2019). [43]

RAS (2017), *Create Life: Public Call for the Implementation of Standardised Mentoring Service*, Development Agency of Serbia, http://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-the-implementation-of-standardised-mentoring-service (accessed on 31 August 2018). [36]

Republic of Serbia (2014), *Regulation on Rules for State Aid Granting*, Ministry of Finance, Republic of Serbia, http://www.mfin.gov.rs/UserFiles/File/drzavna%20pomoc/Uredba%20o%20pravilima%20za%20dodelu%20drzavne%20pomoci.pdf. [22]

Republic of Serbia (2013), *Law on Accounting*, Republic of Serbia, https://www.paragraf.rs/propisi/zakon_o_racunovodstvu.html. [21]

Transparency International (2019), *Corruption Perceptions Index 2018*, Transparency International, https://www.transparency.org/cpi2018 (accessed on 13 September 2018). [13]

UNCTAD (2010), *Integrating Developing Countries' SMEs into Global Value Chains*, United Nations Conference on Trade and Development, http://unctad.org/en/Docs/diaeed20095_en.pdf (accessed on 1 August 2018). [49]

UNDP (2018), *Open Data - Open Opportunities*, United Nations Development Programme Serbia, http://www.rs.undp.org/content/serbia/en/home/projects/opendata.html. [31]

UNDP (2015), *Open Data Readiness Assessment: Republic of Serbia*, United Nations Development Programme, New York, http://www.rs.undp.org/content/dam/serbia/Publications%20and%20reports/English/UNDP_SRB_ODRA%20ENG%20web.pdf. [32]

USAID, NALED, URP (2018), *Reform of Lump-Sum Taxation System*, http://www.jpd.rs. [33]

WEF (2017), *The Global Competitiveness Index 2007-2017 (dataset)*, World Economic Forum, Geneva, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/ (accessed on 24 July 2018). [44]

WEF (2016), *Manufacturing our Future: Cases on the Future of Manufacturing,*, World Economic Forum, Geneva, http://www3.weforum.org/docs/GAC16_The_Future_of_Manufacturing_report.pdf. [52]

World Bank (2018), *Business Reforms in Serbia, Doing Business website*, World Bank, Washington, DC, http://www.doingbusiness.org/en/reforms/overview/economy/serbia (accessed on 13 September 2018). [16]

World Bank (2018), *Doing Business 2019: Training for Reform*, http://www.doingbusiness.org. [4]

World Bank (2018), "Vulnerabilities slow growth", *Western Balkans Regular Economic Report*, No. 13, World Bank, Washington, DC, http://hdl.handle.net/10986/29728. [5]

World Bank (2018), *World Bank Open Data (database)*, https://data.worldbank.org/ (accessed on 19 November 2018). [42]

World Bank (2018), *World Development Indicators: Serbia, Databank*, World Bank Group, http://databank.worldbank.org/data/reports.aspx?source=2&country=SRB. [1]

World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*, World Bank, Washington, DC, http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB2018-Full-Report.pdf. [15]

Further reading

EC (2013), *Entrepreneurship Action Plan: Reigniting the Entrepreneurial Spirit in Europe*, European Commission, Brussels, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A52012DC0795.

EC (2017), *EntreComp: The Entrepreneurship Competence Framework*, European Commission, Brussels, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/entrecomp-entrepreneurship-competence-framework.

EC (2018), *Proposal for a Council Recommendation on Key Competences for Lifelong Learning*, European Commission, Brussels, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018DC0024.

EC (2018), *DigComp 2.1: The Digital Competence Framework for Citizens with eight proficiency levels and examples of use*, European Commission, Brussels, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/digcomp-21-digital-competence-framework-citizens-eight-proficiency-levels-and-examples-use.

Annex 18.A. The OECD Scoreboard Indicators

Annex Table 18.A.1 Scoreboard for Serbia

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
						Debt					
Outstanding business loans, SMEs	EUR million	2 858	3 994	3 966	4 202	4 320	4 352	4 061	4 779	5 332	5 529
Share of SME outstanding loans	% of total outstanding business loans	21.02	20.97	20.58	21.25	21.57	21.27	21.2	25.52	28.54	30.13
New business lending, SMEs	EUR million	2 027	3 409	3 015	3 190	3 323	2 771	2 302	2 717	3 308	4 010
Share of new SME lending	% of total new lending	..	..	..	..	37.49	30.64	32.45	40.16	39.09	39.75
Short-term loans, SMEs	EUR million	1 000	1 265	1 356	1 436	1 308	1 257	1 386	1 405	1 338	1 372
Long-term loans, SMEs	EUR million	1 858	2 729	2 610	2 766	3 012	3 096	2 675	3 374	3 995	4 156
Share of short-term SME lending	% of total SME lending	34.98	31.67	34.2	34.17	30.28	28.87	34.13	29.4	25.09	24.82
Government guaranteed loans, SMEs	EUR million	0.25	0.19	297.9	522.71	390.28	568.94	341.66	750.04	126.31	13.09
Non-performing loans, SMEs	% of all SME loans	6.72	10.56	18.86	21	22.64	26.15	28.05	27.08	26.55	20.12
Interest rate, SMEs	%	10.69	10.9	10.57	10.06	9.72	8.15	8.03	7.25	6.12	5.01
Interest rate, large firms	%	6.32	8.04	7.23	7.36	7.88	6.6	6.34	5.18	3.33	3.12
Collateral, SMEs	% of SMEs needing collateral to obtain bank lending	31.62	38.78	43.14	44.51	45.59	53	55.06	53.13	48.98	40.89
Percentage of SME loan applications	SME loan applications/ total number of SMEs	..	..	..	..	..	..	..	..	14.94	16.46
Rejection rate	1-(SME loans authorised/ requested)	18.66	17.25	28.42	27.13	15.77	32.02	32.18	25.15	24.27	28.08
Utilisation rate	SME loans used/ authorised	71.75	81.66	88.2	67.76	83.83	86.11	87.92	86.47	87.76	87.98

Note: There is a break in the time series for Outstanding SMEs loans, total, in 2012, when an additional bank was added to the data, contributing to the increase in volume
Source: OECD (2018), Financing SMEs and Entrepreneurs 2018: An OECD Scoreboard, OECD Publishing, Paris, https://doi.org/10.1787/fin_sme_ent-2018-en.

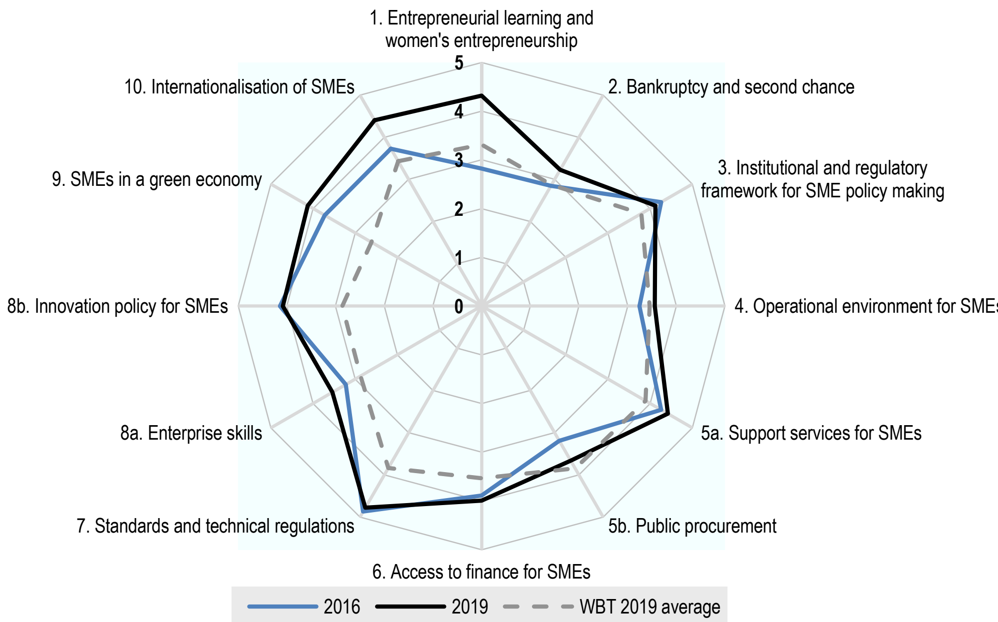
Chapter 19. Turkey: Small Business Act profile

This chapter covers in depth the progress made by Turkey in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Turkey's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the Turkish economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 19.1. Small Business Act scores for Turkey (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology

Turkey has made progress in implementing the Small Business Act since publication of the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 19.1). The economy's main strength lies in offering a comprehensive set of support measures to SMEs, especially with a view to increasing their exports. Significant fiscal stimulus measures introduced since 2016 have also fuelled financing to SMEs and given them the opportunity to scale up.

The main achievements that have helped Turkey boost its performance in this assessment are as follows:

Entrepreneurship training is now widespread in the economy. Following the protocols signed by the SME Development and Support Organisation (KOSGEB) with the Turkish Employment Agency, the Ministry of National Education and other organisations, entrepreneurship courses have increased rapidly in number and now cover all of Turkey's 81 provinces. Successful completion of this training is a requirement to qualify for KOSGEB's Entrepreneurship Support Programme, which has further boosted demand.

Bank lending to SMEs has been significantly expanded through the Credit Guarantee Fund. In 2017, the Turkish government increased the size of its Credit Guarantee Fund – which guarantees loans to SMEs that could not otherwise get credit – to TRY 250 billion (about EUR 45 billion). Growth in lending to SMEs has surged, significantly easing their access to finance.

Access to finance for SMEs with limited fixed asset collateral has improved. In 2017, the new law on Movable Pledges in Commercial Transactions entered into force, allowing for the possibility to pledge a variety of movable assets in commercial transactions. The pledged movables falling under the scope of the law can now also be registered on line. SMEs operating in manufacturing are particularly well placed to benefit from this law.

New fiscal measures could stimulate the private sector's research and development activities. An extensive support package for research and development (R&D) and innovation-related activities was introduced in 2016, providing various tax incentives to enterprises. Given that government funding of private sector R&D stands at only 0.07% of gross domestic product (GDP), this package may bring this expenditure closer to the OECD average of 0.1%.

The Standardisation Strategy paves the way for SME involvement in standardisation. Adopted in 2017, Turkey's first ever strategy on standardisation outlines how the process could be enhanced, in particular by increasing stakeholder engagement. A variety of measures are expected to enhance SMEs' awareness of the standards' benefits and boost SME participation in developing them.

The newly introduced concordat regime enables viable firms to restructure and avoid bankruptcy. Following amendments to the Enforcement and Bankruptcy Law in March 2018, the government introduced concordat proceedings which allow the debts of those facing bankruptcy to be reconstructed. This development is expected to improve the survival rate of SMEs in the long term.

Assistance to SMEs in integrating into global markets via e-commerce has gained traction. In 2017, the Ministry of Economy decided to provide financial support to enterprises for e-commerce website membership, and signed agreements with major global e-commerce platforms. This may encourage more SMEs to participate in global e-commerce markets by selling and buying on line.

Priority areas

Turkey's intensive efforts to provide financial and technical assistance to SMEs have yet to be accompanied by systematic evaluations of their economic efficiency and to ensure public accountability. More attention should be paid to creating favourable regulatory conditions, since SMEs' unique needs are not entirely mainstreamed in policy making.

The assessment identifies seven priority areas in which Turkey should intensify its activities:

- **Make better use of evaluation in the policy cycle.** Building on previous attempts, Turkey needs to embark on a systematic evaluation of the efficiency and efficacy of its various SME support measures. Given the large and growing amount of state aid funnelled to SMEs, the optimal use of public resources needs to be ensured.
- **Continue consolidating and streamlining SME support measures**. In 2018, 14 public institutions offered more than 90 support programmes to benefit SMEs. With such a large number of measures available both at national and local level, it is important to continue efforts to avoid overlaps and create further synergies among public institutions so as to increase the programmes' impact.

- **Enforce the systematic use of regulatory impact analysis and assess the implications of regulations for SMEs.** Despite the existing legal framework, regulatory impact analysis (RIA) is not conducted regularly, and comprehensive impact analyses that look at the effects of policy proposals on SMEs are not observed. Expanding RIA to the whole regulatory process, while taking SMEs' interests into account at an early stage of policy making, would further improve the regulatory environment.
- **Improve engagement with SMEs in policy making.** There is no evidence that consultations are open to enterprises in Turkey. The planned online legislative participation portal could be an important milestone in systematically collecting SMEs' views on new regulatory proposals – making the business environment more SME-friendly.
- **Streamline business licence and permit applications by creating one integrated authority to issue them**. Although the current Central Commercial Registration System allows for easy business registration, it lacks a centralised application process for the various licences and permits. One single co-ordination body would simplify the process so that enterprises do not need to visit several different public institutions to obtain permits.
- **Reduce the administrative burden on SMEs when participating in public procurement.** The documentation requirements for procurement procedures need to be reduced and aligned with the 2014 EU Public Procurement Directives. Only tender winners should be required to produce documents proving that they fulfil the selection criteria, to allow more SMEs to submit bids.
- **Improve ease of a second chance for honest bankrupt entrepreneurs.** The lack of automatic discharge, and the ensuing need to re-apply in court, is highly biased against honest bankrupt entrepreneurs who wish to start a new business. The time period between liquidation and formal debt cancellation should be as short as possible, to allow failed entrepreneurs to make a fresh start quickly.

Economic context and role of SMEs

Economic overview

Turkey is an upper-middle income economy and the world's 17th largest economy in terms of nominal gross domestic product (GDP). It is also 64th largest for its nominal GDP per capita (World Bank, 2018[1]).[1] With a population of 81 million in 2017, Turkey is the largest economy in the WBT region.[2]

Turkish GDP continues to catch up with the more advanced OECD economies. Real GDP growth averaged 5.7% over 2013-17. At 7.4% in 2017 (Table 19.1), Turkey's annual real GDP growth was among the fastest worldwide, exceeding both market expectations and official projections (OECD, 2018[2]).

In 2017, demand was stimulated by expansionary fiscal measures and the Credit Guarantee Fund. Established in 1993, this fund has been extended into 2018 with an injection of TRY 55 billion (Turkish lira; EUR 9.9 billion) of fresh capital aimed at easing firms' access to finance. Total consumption accounted for over two-thirds of growth in this period. However, strong demand has resulted in high consumer price inflation, averaging 11.1% in 2017 (Table 19.1). In addition to high inflation, a widening current account deficit points to Turkey's macroeconomic imbalances. Despite progress in recent years, income and wealth inequalities remain high compared to OECD high-income economies. Regional inequalities loom large despite constant growth, and the economy remains one of the OECD members with the widest disparities in gross value added between the best and worst-performing regions. This highlights the need for structural transformation, especially in the eastern regions, to help them catch up with income and productivity levels in the rest of the economy (OECD, 2016[3]).

Turkey's economy is dominated by industry and services, while the agricultural sector contributes to about 6.1% of GDP and accounts for 20.7% of total employment (World Bank, 2018[4]; Republic of Turkey, 2018[5]). The manufacturing sector concentrates 13.6% of all enterprises, and focuses mainly on low- and medium-technology products. However, the tradable sector has improved its performance in many areas over the past decade: the share of medium-to-high and high-technology goods in total manufactured exports reached 39% in 2017, up from 26% in 2012 (OECD, 2018[2]). Passenger car exports expanded by 13% and car part and component exports by 22% in 2017, illustrating Turkey's progress in transitioning to medium-to-high technology manufacturing (OECD, 2018[2]). On the other hand, the economy remains dependent on imports – especially of primary goods – representing almost one-quarter of GDP in 2017 (Table 19.1). The negative trade balance is expected to worsen due to only modest growth in exports alongside increasing private domestic demand (EC, 2018[6]). Given the limited impact of government incentives to increase savings, and the fact that private consumption continues to put sizeable pressure on external imbalances, the challenge is to expand the export base to bolster competitiveness, especially in goods with high-technology content. This is particularly relevant for exports to the euro area, which are relatively high-tech and which have been increasing (EC, 2018[6]).

Foreign direct investment (FDI) inflows and international reserves currently remain low by international comparison. Notably, the inflow of FDI declined from 2.1% of GDP in 2015 to 1.3% in 2017 (Table 19.1). A similar trend can be seen in international reserves, decreasing by 1 percentage point to fall to 5.5% in 2017 (Table 19.1). With a negative net international investment position of 53.5% and gross external debt of 53.3% of GDP as of 2017, Turkey's net foreign liabilities are among the highest of the large emerging market economies, and are expected to further deteriorate in 2018 (OECD, 2018[2]; EC, 2017[7]; EC, 2018[8]). In this deteriorating investment climate, the sharp depreciation of the Turkish lira, which pushed up the economy's debt ratio, also resulted in an upsurge in borrowing costs for the large number of non-financial firms carrying high foreign currency debt (OECD, 2018[2]). Meanwhile, rising inflation expectations led to mounting nominal interest rates, and hindered investment among Turkish companies (OECD, 2018[2]). As well as increasing the economy's risk premia, these trends exacerbated exchange rate volatility and depreciation. Although the latter has contributed to the trade balance by enhancing the competitiveness of Turkish exports, much of the competitiveness gains were reversed due to unanchored inflation expectations and nominal wage growth emanating from double-digit headline and core inflation figures recorded since August 2017, well above the official target of 5% (EC, 2018[6]; OECD, 2018[2]).

Following a series of interventions that proved inadequate to re-anchor expectations and thus avoid substantial currency depreciation, the Central Bank took more decisive action and tightened its effective funding rate by 500 basis points from April 2018 to June 2018 (OECD, 2018[2]). Yet in August 2018 alone, the lira depreciated by 34% against the dollar, though it has been regaining ground since early September (EC, 2018[8]). Following the Central Bank interest rate hikes and the government's three-year New Economic Programme, the lira appreciated by 15% against the dollar up to November 2018, and seemed to be becoming less volatile.

While an ambitious downward trajectory for inflation is set out in Turkey's Economic Reform Programme (see Box 19.1), reaching consistently lower rates will be challenging given the high capacity utilisation, increasing employment and wage growth, far exceeding nominal GDP growth. A combination of well-anchored inflation expectations, low money growth, declining energy prices and an appreciating currency would be necessary to achieve lower inflation (EC, 2018[6]).

In addition to the plunging currency, surging inflation and build-up of liabilities, ad-hoc budgetary measures in both expenditures and revenues since 2016 have destabilised public finances (EC, 2018[6]). Alongside a string of new consumption, investment and employment incentives, the government has expanded loan guarantees, which are now among the highest in the OECD as a share of GDP (OECD, 2018[2]). Overall, the fiscal stimulus measures have significantly weakened the economy's macroeconomic stability, leading to an increase in the budget deficit in the first half of 2018 to TRY 46.1 billion (EUR 8.3 billion) (EC, 2018[6]; EC, 2018[8]). Even the 18.2% increase in fiscal revenues in the first six months of 2018, particularly in corporate income tax and domestic value-added tax (VAT) (EC, 2018[8]), has not been enough to re-establish the budget balance.

Stimulated by new employment incentives, 1.6 million net new jobs were created in 2017 (OECD, 2018[9]). Labour force participation increased by 1 percentage point to reach 58% in the 15-64 age group. However, in spite of dynamic job creation and a labour force growing over 3% every year, the economy's working age population employment rate remains the lowest in the OECD at 51.5%, with a significant share of the female population never entering the labour market (OECD, 2018[2]; OECD, 2018[10]). As a long-standing structural issue, the level of female participation in the Turkish labour market remains significantly low – at 33.5% compared to 72.4% for men, according to the International Labour Organization (ILO, 2018[11]). On the other hand, the rate of unemployment has increased by 27.6%, from 8.7% of the total active population in 2013, to 11.1% in 2017, well above the OECD average of 5.8% (Table 19.1) (EC, 2018[8];

OECD, 2018[2]). Another structural issue yet to be addressed is the sharp disparities in regional employment and unemployment rates, substantially higher than that of other OECD countries. Meanwhile youth unemployment increased by 1.2 percentage points up to 20.8 in 2017, considerably more for young women (up 2.4 percentage points to 26.1%) than young men (up 0.4 percentage points to 17.8%), reflecting once again the wide gender gap in the labour market (EC, 2018[6]). Although the share of 15-29 year-olds not in employment, education or training (NEET) fell by 14 percentage points from 2008 to 2016, it still remains the highest in the OECD: at about 28%, the rate is twice the OECD average of 14%.

Turkey faces challenges in making productive use of its human capital (EC, 2018[6]). While higher labour force participation is associated with lower levels of productivity (as those with lower productivity enter the labour market), the unemployment rate remains persistently high among more highly educated people. Enhancing competitiveness through a more inclusive and better-skilled labour force will be key to achieving sustainable and inclusive growth. Turkey should give a higher priority to enacting active labour market policies to introduce structural reforms, alongside improving the synergy among its social, education and labour market policies (OECD, 2015[12]; EC, 2018[6]).

Informality in the labour market remains high despite an increase in monitoring and soft measures: in 2017 the proportion of unregistered workers increased by 0.5 percentage points to 34.0% (29.2% for men and 44.6% for women) and 22.1% in the non-agricultural sector. The number of unregistered Syrian workers is estimated at between 700 000 and 800 000 (EC, 2018[6]).

Table 19.1. Turkey: Main macroeconomic indicators (2013-18)

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth	% year-on-year	8.5	5.2	6.1	3.2	7.4	6.2**
Inflation	% average	7.5	8.9	7.7	7.8	11.1	14.2***
Government balance	% of GDP	0.1	0.1	1.3	-1.3	-2.0	-0.8**
Current account balance	% of GDP	-7.8	-4.7	-3.8	-3.8	-5.6	-6.4**
Exchange rate EUR/TRY	Value	2.6	2.9	3.0	3.3	4.2	5.5***
Exports of goods and services	% of GDP	22.3	23.8	23.3	22.0	24.8	24.7**
Imports of goods and services	% of GDP	28.1	27.6	26.0	24.9	29.3	30.0**
Net FDI	% of GDP	1.4	1.4	2.1	1.6	1.3	1.1**
External debt	% of GDP	41.1	43.5	46.7	47.8	53.3	..
Gross international reserves	Ratio of 12 months imports of goods moving average	6.2	6.4	6.4	6.4	5.5	5.1**
Unemployment	% of total active population	8.4[3]	10.1	10.5	11.1	11.1	10.3**
National GDP	EUR billion	714.3	703.4	773.0	780.2	753.9	..

Note: ** average of 1st and 2nd quarter; *** average of 1st, 2nd and 3rd quarter.
Sources: EC (2018[8]), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", https://ec.europa.eu/info/sites/info/files/economy-finance/tp028_en.pdf;
EBRD (2018[13]), *Transition Report 2018-2019: Work in Transition*, https://2018.tr-ebrd.com/countries/# /;
OECD (2018[2]), *OECD Economic Surveys: Turkey 2018*, http://dx.doi.org/10.1787/888933798504;
Eurostat (2018[14]), *Eurostat (database)*, https://ec.europa.eu/eurostat/web/national-accounts/data/database.

Business environment trends

The business environment in Turkey has deteriorated slightly since the last assessment, despite progress in some respects. This raises several challenges to the further development of the Turkish economy. The business environment is significantly hampered by the large informal economy, which constitutes 26.8% of Turkish GDP and prevents a level playing field that ensures fair competition between companies (EC, 2018[15]). The high level of informality is closely linked to the burdensome regulatory setting, which raises the costs of operating in the formal sector (OECD, 2018[2]). The significant shortcomings and inflexibility of institutional and regulatory frameworks continue to lead many firms to operate semi-formally (OECD, 2018[2]). To overcome this "informality trap", the government has recently expanded financial incentives to formal businesses, such as social security contribution cuts for new employees and corporate tax allowances for up to 55% of eligible investment costs, but it is yet to undertake reforms addressing the underlying causes of informality and semi-formality (OECD, 2018[2]). In the meantime, strong nominal increases in the official minimum wage as a result of soaring inflation might aggravate informality in the economy.

Other major impediments are the burden of bureaucratic procedures, especially in the areas of resolving insolvency, dealing with construction permits and paying taxes (EC, 2018[6]). Nevertheless, Turkey has shown commitment to bringing its framework for doing business closer to international good practice by taking significant steps in this direction. Registering property has been made easier by lowering the costs of transferring property, while the credit information system has been improved through the adoption of a new law on personal data protection (World Bank, 2018[16]). Parliament has also adopted a new law to simplify procedures for accessing infrastructure, telecommunications and municipal services (OECD, 2018[2]). With a view to improving the business environment, the government also plans to eliminate differences between the central administration and local government in the processes involved in opening a business and obtaining an operating licence, and to reduce the number of approvals and documents required (EC, 2018[6]).

Creating a conducive business and investment environment will depend on the successful implementation of these, alongside further reforms signalled in Turkey's Economic Reform Programme (see Box 19.1) for 2018-20. Its Business and Investment Climate Improvement Programme emerges as a priority, built on the four pillars of: 1) improving bureaucratic procedures; 2) improving judiciary processes; 3) facilitating investment location support; and 4) improving business governance and the investment climate at regional level (Republic of Turkey, 2018[5]). It is important to note that as well as administrative and legal reforms, improving the business environment will hinge on mitigating the deteriorating economic situation. The soaring inflation rates and plummeting lira, coupled with energy price hikes, increase the cost of doing business, especially for SMEs.

Box 19.1. Economic Reform Programmes

Since 2015, all European Union (EU) candidate countries and potential candidates are obliged to prepare Economic Reform Programmes (ERPs). ERPs prepare the enlargement countries for their future participation in the EU's economic policy co-ordination procedures. They also play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation.

The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda. The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets
- social inclusion, poverty reduction and equal opportunities.

The European Commission and the European Central Bank then assess these seven programmes. This forms the basis for a multilateral economic policy dialogue involving enlargement countries, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting in which participants adopt joint conclusions that include country-specific policy guidance reflecting the most pressing economic reform needs.

The findings of the Small Business Act assessment for the Western Balkans and Turkey provide the analytical background and guidance to the seven EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

Source: EC (2018[17]), *Economic Reform Programmes: Western Balkans and Turkey,* https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf.

The World Bank's *Doing Business 2019* (2018[18]) ranks Turkey 43 out of 190 economies for ease of doing business, an improvement of 26 places since the last assessment. Turkey is one of ten economies showing the most notable improvement in performance on the *Doing Business* indicators and is the second-best performer in the WBT region. Table 19.2 outlines the recent reforms affecting the ease of doing business in Turkey.

Table 19.2. Recent business reforms in Turkey

	Reforms making it easier to do business	Reforms making it harder to do business
Doing Business 2019	**Starting a business** was made easier by removing the paid-in minimum capital requirement and by eliminating the notarisation of company documents and legal books. **Dealing with construction permits** was made easier by increasing the transparency of building regulations by publishing on line all the pre-application requirements for obtaining a construction permit. Turkey also strengthened construction quality control by imposing stricter qualification requirements for professionals in charge of approving architectural plans. **Access to credit** was made easier by extending the security interest to products, proceeds and replacements of the original collateral; secured creditors are now given absolute	Turkey made **registering property** more expensive by increasing the costs of transferring property.

	priority over other claims, such as labour and tax, both outside and within bankruptcy proceedings. Turkey also improved access to credit information by reporting data on arrears from telecommunications companies. **Paying taxes** was made easier by improving the online portal for filing and paying taxes. **For trading across borders,** Turkey reduced the time and cost of exports and imports through various initiatives, including expanding the functionalities of the national trade single window, enhancing the risk management system and lowering customs brokers' fees. Turkey made **enforcing contracts** easier by publishing judgments rendered at all levels in commercial cases and by introducing financial incentives for mediation. **Resolving insolvency** was made easier with the introduction of post-commencement credit, improving voting arrangements in reorganisation and granting creditors greater participation in the proceedings.	
Doing Business 2018	**Registering property** was made easier by reducing mortar dues (property transfer registration fees) from 4% to 3%. **Getting credit** was made easier by adopting a new law on secured transactions that establishes a unified collateral registry and allows out-of-court enforcement of collateral. Turkey also improved its credit reporting system by adopting a new law on personal data protection.	**Resolving insolvency** was made more difficult by suspending applications for the postponement of bankruptcy procedures.
Doing Business 2017	**Starting a business was made easier** by allowing new companies to automatically receive a potential tax identification number online through the Central Registration Recording System. Paying taxes was made easier by introducing electronic invoicing and electronic bookkeeping. At the same time, however, Turkey also increased the rate of transaction tax applicable on checks.	None

Note: Only reforms which had either a positive or a negative impact on conducting business were considered.
Source: Adapted from the World Bank (2018[19]) *Business Reforms in Turkey*, www.doingbusiness.org/en/reforms/overview/economy/turkey.

EU accession process

Turkey has been closely linked to the EU since the Ankara Association Agreement in 1964 and the establishment of the Customs Union in 1995. In 1999, Turkey was granted EU candidate status; accession negotiations started in 2005. As of October 2018, 16 out of 35 accession negotiation chapters had been opened, with Science and Research the only one that is provisionally closed. Under the prevailing conditions, no new chapters are being considered for opening (EC, 2018[20]). However, the enhanced political dialogue between the EU and Turkey continues, and developing closer economic ties remains a shared priority (EC, 2018[20]).

Enterprise and Industrial Policy, Chapter 20 of the EU-Turkey negotiation process, has been open since March 2007. This chapter aims to foster competitiveness, facilitate structural change and promote a business-friendly environment. Implementing the ten SBA principles is one of the chapter's main requirements. The findings and recommendations of the *SME Policy Index: Western Balkans and Turkey 2019* provide monitoring and guidance for Turkey and the other enlargement countries in meeting the requirements for Chapter 20 in the *acquis* when negotiating their accession into the EU.

The European Commission's latest enlargement report on Turkey found the economy to have a good level of preparation in the area of enterprise and industrial policy (EC, 2018[20]). Some progress has been made in the legal framework for doing business as well as in access to finance, as pointed out in the 2016 SME Policy Index findings (OECD, 2016[22]). However, the economy has yet to address significant shortcomings: combating widespread informality, improving the long-term financing opportunities of SMEs and developing the legal framework for microfinance. Going forward, Turkey is particularly advised to:

- improve policy compliance following the results of the SBA report
- focus on measuring the impact of policy tools.

EU financial support

Over EUR 9 billion of EU financial assistance has been planned for Turkey from 2007 to 2020 through the Instrument for Pre-accession Assistance (IPA). While the EC has proposed significantly cutting the overall indicative allocation to Turkey for the 2018-20 period on the basis of a performance and progress review in 2017, total EU financial assistance to the economy remains substantial (EC, 2018[23]). IPA I (for 2007 to 2013) allocated EUR 4.58 billion in total; with significant amounts earmarked for projects fighting the informal economy, growing the entrepreneurship ecosystem to increase youth employment and developing employee capacity. IPA II (for 2014 to 2020) allocates EUR 4.49 billion in total; 7.7% is dedicated to competitiveness and the innovation sector, while 9.7% is budgeted for education, employment and social policies (European Court of Auditors, 2018[24]). Compared to IPA I, IPA II gives a higher priority to innovation, while reducing infrastructure funding support (EC, 2018[23]).

The Turkish economy benefits from numerous EU-funded support programmes. These include Horizon 2020, the biggest EU research and innovation programme to date; as well as Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME); and Employment and Social Innovation (EaSI). These programmes address SME development, competitiveness and innovation by supporting the development of adequate labour market policies, facilitating access to finance, fostering internationalisation and enhancing innovative entrepreneurship support for start-ups and SMEs.

Since the mid-1990s, the European Investment Bank (EIB) has been supporting Turkey's development and integration with the EU; it has lent over EUR 28.6 billion since 2000 (EIB, 2018[25]). A key focus of the bank's investments has been SME support: SMEs have accounted for about 54% of the total EIB financing in Turkey, which reached close to EUR 2.1 billion in 2014 (EIB, 2015[26]).

SMEs in the national economy

Turkey's classification of SMEs is defined by SME legislation that entered into force in 2005 and was first amended in 2012 and then again in June 2018. The law distinguishes between micro, small and medium-sized enterprises on the basis of employment and turnover, or on the basis of the balance sheet. The employment size definition is in line with that of the EU. SMEs can choose to meet either the turnover or balance sheet limits (Table 19.3).

Table 19.3. Definition of micro, small and medium-sized enterprises in Turkey

	EU definition	Turkey definition
Micro	< 10 employees ≤ EUR 2 million annual turnover or balance sheet	< 10 employees ≤ TRY 3 million turnover or balance sheet
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees ≤ TRY 25 million turnover or balance sheet
Medium-sized	< 250 employees ≤ EUR 50 million turnover or ≤ EUR 43 million balance sheet	< 250 employees ≤ EUR 50 million turnover or ≤ TRY 125 million balance sheet

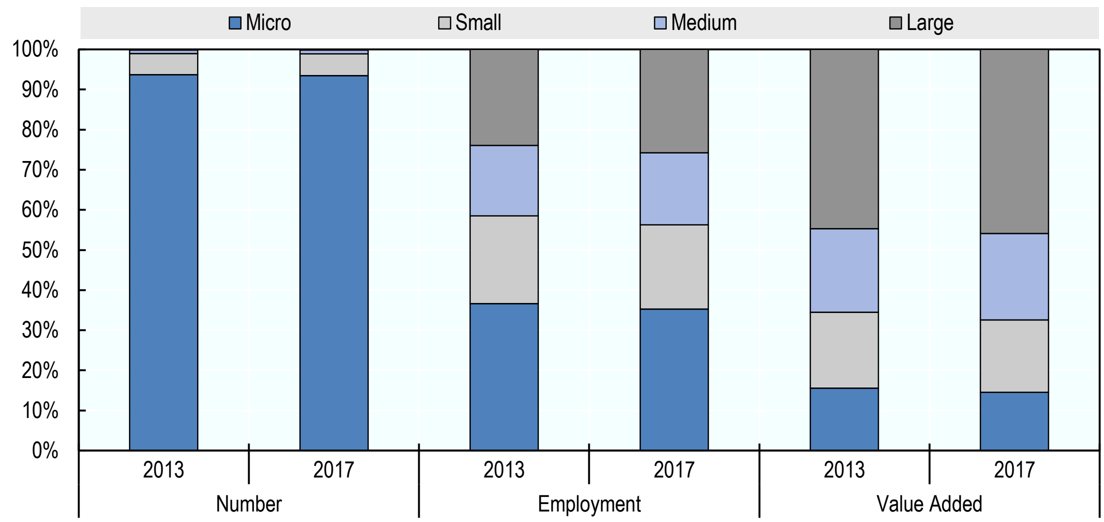
Note: Exchange rate will be adjusted at the final stage.
Source: Official Gazette no 2018/11828 (2018).

According to data from 2017, SMEs constitute 99.8% of Turkish businesses – around 3 095 000 enterprises (EC, 2017[27]). In 2017, micro enterprises continued to make up the overwhelming majority of Turkish firms at 93.4%; small firms represented only 5.5% of all enterprises and medium-sized firms 0.9% (Figure 19.2). In Turkey, SMEs contribute to 74.2% of total business sector employment, and account for 54.1% of total value added of the business sector. Notably, SMEs contribute the lowest share to value added in the WBT region alongside Serbia (55%), as in the previous assessment. Despite the considerable number of successful SMEs that have emerged, small firms' overall productivity levels amount to only 20% of those of Turkey's large companies (OECD, 2018[2]). For more information on the key financial indicators for SMEs in Turkey, see Table 19.A.1.

In 2016 new business registrations reached 106 453, 7% lower than in 2015; while de-registrations decreased by 2% to 45 903 in the same year (EC, 2017[27]). While SMEs are vital for the Turkish economy at large, their geographical distribution is highly concentrated. There are sharp disparities between the top and lower-performing regions for number of SMEs, new businesses registered and the entrepreneurship environment for SMEs. For instance, the number of SMEs per 1 000 inhabitants is 41.6 in the provinces of Van, Muş, Bitlis, Hakkari, while it is 87.6 in the provinces of Antalya, Isparta and Burdur (OECD, 2016[3]). The Turkish Statistical Institute is not currently collecting SME-related statistics at NUTS-II (Nomenclature of Territorial Units for Statistics) or NUTS-III level.[3]

The share of businesses owned by women in Serbia is not known, as the Turkish Statistical Institute does not collect data on this indicator as part of its structural business statistics.

Figure 19.2. Business demography indicators in Turkey (2013 and 2017)

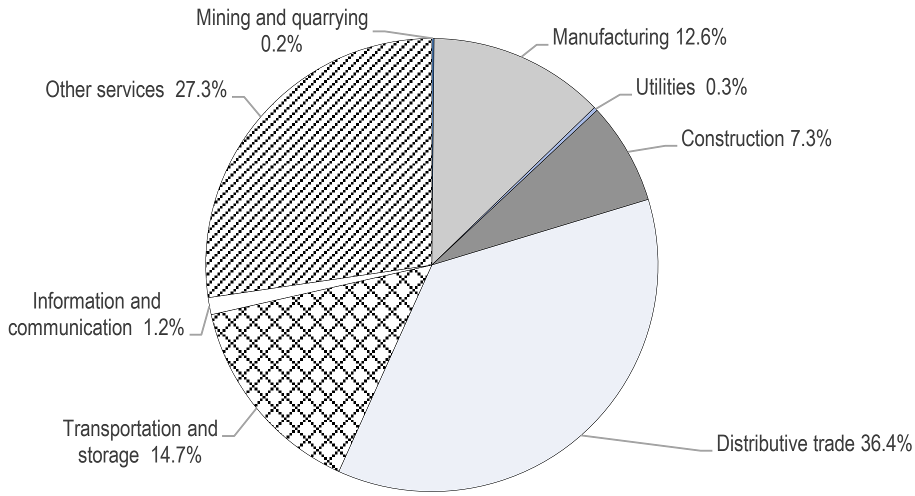


Note: Agriculture excluded.
Source: Turkish Statistical Institute (2018).

Most Turkish SMEs (36.5%) operate in distributive trade (Figure 19.3). This is followed by other services (27.3%), transportation and storage (14.8%), manufacturing (12.6%), construction (7.3%), information and communication (1.3%), utilities (0.3%) and mining and quarrying (0.2%). Despite representing relatively few companies, manufacturing remains of key importance as it accounts for up to 30% of total value added (EC, 2017[27]). Among the manufacturing sectors, machinery industry is particularly dominated by small family-run enterprises; in 2013, SMEs accounted for 99.6% of the total labour force employed in machinery enterprises, of which micro enterprises alone accounted for 79% (OECD, 2016[3]).

StatLink http://dx.doi.org/10.1787/888933937945

Figure 19.3. Sectoral distribution of SMEs in Turkey (2017)



Note: Agriculture excluded. The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Source: Adapted from Turkish Statistical Institute data 2018.

Assessment and recommendations

Process

The Small Business Act (SBA) assessment cycle was launched in Turkey with a kick-off meeting in Ankara on 26 September 2017. The meeting was organised in co-operation with the SME Development and Support Organisation (KOSGEB) operating under the Ministry of Industry and Technology. KOSGEB acts as the SBA Co-ordinator, nominated by the European Commission, and is responsible for implementing the SBA principles.[4]

During the meeting, the new assessment framework (see Figure 19.1 for details) was presented to the line ministries and public institutions which were expected to contribute to the information-collection process. The two documents making up the assessment framework – the questionnaire and statistical data sheet – were explained in depth to the participants, directing particular attention to the newly added questions and indicators.

Following the launch event, KOSGEB distributed the questionnaire to the appropriate counterparts in the ministries and government agencies, and sent the statistical sheet to the Turkish Statistical Institute (TUIK). From September 2017 to January 2018, the necessary data and documentation were compiled, subsequent to which the questionnaire was completed. In so doing, a score for each policy dimension was assigned, by providing an accompanying justification. The completed questionnaires and statistical data sheet were sent to the OECD team on 12 January 2018 for review.

The review of the inputs by the OECD and partner institutions revealed the need for additional information on certain elements. These were requested from KOSGEB, which sent back the updated statistical data on 1 February 2018.

Meanwhile, an independent assessment was also conducted by the OECD and its partner organisations. This was based on inputs from a team of local experts in Turkey, who collected data and information and conducted interviews with key public and civil society stakeholders, as well as with SME representatives.

Following the completion of the government self-assessment and independent assessment, a reconciliation meeting was organised by the OECD and the European Bank for Reconstruction and Development (EBRD) in Ankara on 10 April 2018. The meeting aimed to close any remaining information gaps in the questionnaire, while also providing an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies, and what else can be done across different policy areas to improve their performance and competitiveness in Turkey. For the two policy dimensions (entrepreneurial learning and women's entrepreneurship, and enterprise skills) whose assessment was led by the European Training Foundation (ETF), similar meetings took place in Ankara on 13-15 March 2018.

The reconciliation meeting allowed the assessment findings to be consolidated. The OECD and its partner organisations decided on the final scores under each policy dimension presented in this report. The preliminary findings and scores were subsequently presented to SBA Co-ordinators at a meeting in Paris on 14 July 2018. The draft SME Policy Index publications and the SBA Assessment profile of Turkey were made available to the Turkish government for their review and feedback during August-October 2018.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 19.4).

For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

Table 19.4. Description of score levels

Level 5	Level 4 plus results of monitoring and evaluation inform policy framework design and implementation
Level 4	Level 3 plus evidence of a concrete record of effective policy implementation.
Level 3	A solid framework, addressing the policy area concerned, is in place and officially adopted.
Level 2	A draft or pilot framework exists, with some signs of government activity to address the policy area concerned.
Level 1	No framework (e.g. law, institution) exists to address the policy topic concerned.

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

Turkey is one of the top performers in the WBT region for both entrepreneurial learning and women's entrepreneurship. This is borne out by its continuing first position on Dimension 1 with a total score of 4.32 (Table 19.5). Turkey has maintained its leading position in the region since 2016, when its assessment results were more modest (Figure 19.1), and has demonstrated good progress in both policy areas.

Table 19.5. Scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	4.45	3.73
		Implementation	4.55	3.61
		Monitoring and evaluation	4.00	2.57
		Weighted average	**4.38**	**3.43**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	5.00	3.57
		Implementation	4.43	3.16
		Monitoring and evaluation	2.60	2.37
		Weighted average	**4.17**	**3.12**
Turkey's overall score for Dimension 1			**4.32**	**3.31**

State of play and key developments

Entrepreneurial learning

Entrepreneurial learning is an integral part of Turkish government policy, promoting a strong entrepreneurship culture, steering the entrepreneurship ecosystem and contributing to the competitive power of the economy. Both the Tenth Development Plan and the Turkish Entrepreneurship Strategy and Action Plan 2015-2018 provide an overarching policy framework for specific regulations and support measures for lifelong entrepreneurial learning in formal education and non-formal learning. Along with health, justice and safety, education is one of Turkey's top policy priorities. Turkey's recently launched 2023 Education Vision structures the government's actions around equipping the new generation of young people, as well as adults, with scientific and critical thinking; developing a culture of questioning and research; and promoting key competences that comprise knowledge, skills and universal values essential for the competitive economy, democratic information society and sustainable development (MEB, 2018[28]).

These government actions are co-ordinated by the Entrepreneurship Council, which includes ministries, public organisations and non-government organisations (NGOs). The council provides a formal platform for the national policy partnership, supported by the SME Development and Support Organisation (KOSGEB) in its co-ordinator role. The council is also in charge of policy monitoring and evaluation. The Entrepreneurship Strategy and Action Plan has ten actions for entrepreneurial learning; these are implemented by the Ministry of National Education (MoNE). KOSGEB, the Council of Higher Education (YÖK) and other organisations, and form part of the annual progress reporting. The Entrepreneurship Council's provision of strong, formal policy co-ordination and an oversight structure at policy level is an asset; however, given its size and the fact that it meets annually, it is important to establish a more flexible co-ordination mechanism below this top level. That would allow the main stakeholders with a specific interest in promoting entrepreneurial learning or women's entrepreneurship to collaborate in the interim.

The government aims to include entrepreneurship in the curricula at all levels of education, launch entrepreneurship projects at schools, implement an "entrepreneurial school" concept and organise school entrepreneurship clubs. At the national level, entrepreneurship is widely promoted through the media and a variety of contests and awards. Entrepreneurship as a key competence is addressed at system level in different forms and throughout the formal education system. Entrepreneurial learning is now guided by the 2023 Education Vision and regulated by a whole range of strategy and implementation documents. These include the Turkish Lifelong Learning Strategy Document and Action Plan 2014-2018, the Strategic Plan of the Ministry of National Education 2015-2019, and the Education Vision 2023. It is supported by cross-sectoral agreements such as the Applied Entrepreneurship Training Co-operation Protocol between KOSGEB and MoNE's Directorate General of Vocational Technical Training. The adoption of the Education Vision 2023 is an important policy development, reflecting the most up-to-date strategic thinking and aiming to equip Turkey's youth with modern competences. It helps motivate youth to find solutions to community problems through support for social entrepreneurship. Over 2018-23, support for social entrepreneurship programmes will include preparing small-scale pilots, large-scale pilots, economy-wide pilots, monitoring, evaluation and improving.

At system level, the entrepreneurship key competence is embedded in the main philosophy of education programmes and constitutes a cross-curricular element in the primary and lower secondary education curricula. Entrepreneurship is also offered as an optional subject at upper secondary level, and is a compulsory subject in vocational and technical education. The cross-curricular concept is based on the integrated learning outcomes approach and is also applied to developing students' digital key competence, for instance in the Information Technology and Software Curriculum (Grades 1-4 of primary school) in the 2018-19 academic year. Higher education follows a cross-curricular model promoted through the KOSGEB Practical Entrepreneurship Course, with many years of successful implementation across the university system. More than 150 000 students benefited from this course in 2017-18; its graduates are also eligible to apply for the KOSGEB New Entrepreneur Grant. The Entrepreneurship Foundation offers fellowship programmes to university students and supports training and mentoring for young entrepreneurs.

The new 2023 Education Vision sets high targets for teacher orientation. It recognises the importance of teachers' role in preparing their students for the competitive world and offers them more power and support. The vision announces a "paradigm shift": changing teachers' mindsets and equipping them to facilitate a competence-based education process, to act as "learning guides" and to apply innovative active teaching and learning methods (Çengel, 2018[29]).

Support for teachers' development of the entrepreneurship key competence is now widely offered through in-service teacher training programmes, organised both at system level and as demand-based training. These programmes benefit from support by different stakeholders, including a co-operation protocol between the Ministry of National

Education, the Ministry of Industry and Technology and the Scientific and Technological Research Council of Turkey (TÜBİTAK), to train a group of teachers in innovation and entrepreneurship. Some university education faculties offer an entrepreneurship course in pre-service teacher training, following an agreement between individual universities and KOSGEB. However, preparing Turkey's large teaching workforce to meet the challenges of establishing a competence-based learning environment remains a major objective for the near future.

Co-operation between enterprises and education institutions is key to providing practical entrepreneurship experience and a major driver influencing graduates' future entrepreneurial career choices. Co-operation practices range from entrepreneurship projects and role models in high schools provided by Junior Achievement Turkey, to incubation centres and technoparks in Turkish universities supported by KOSGEB and TÜBİTAK. Both the Entrepreneurship Strategy and Action Plan and the Vocational and Technical Education Strategy (2014-2018) provide incentives to the private sector to engage with vocational and technical schools, including private ones, within and beyond organised industrial zones. Moreover, practical entrepreneurship experience is now featured in vocational education and training (VET) internships in companies, and MoNE co-operates with the provinces to promote both entrepreneurial initiatives and access to start-up funding for students who have successfully completed apprenticeship training. This cross-sectoral policy approach to entrepreneurial learning is demonstrated in the National Employment Strategy and Action Plan 2017-2019, supporting project-based innovation and entrepreneurship through education system actions and Active Labour Market Programmes. While entrepreneurship careers are currently more vigorously targeted at university graduates, making entrepreneurship a viable choice within VET career guidance remains an important objective.

The Turkish government closely monitors the actions that support entrepreneurial learning but evaluating the impact of its policies on the career satisfaction of those leaving education remains a system-level challenge in Turkey. This has led to the newly established Initial Vocational and Technical Education E-Graduate tracking system that looks, among other things, at links between education system learning outcomes and the skills applied by VET graduates in both waged employment, and self-employment or entrepreneurship careers. It represents good practice both within the Turkish policy environment and among WBT economies (Box 19.2).

Box 19.2. Turkey's E-Graduate Monitoring Portal

Turkey has a well-developed system for collecting labour market data, including a skills mismatch analysis system. It tracks the employability of VET students and the market's needs for VET skills through its E-School integrated information system. This publicly funded web-based data management system monitors, collects, analyses, reports and disseminates data on student enrolment, attendance, assignments, examination entries, grades and report cards, as well as information on workplace/work-based learning. E-School is widely used by stakeholders.

The E-Graduate system, managed by the Ministry of National Education (MoNE), monitors the transition from VET to work and includes data on the school types of VET graduates year of graduation, whether they went on to higher education, their work sectors, the relationship between the subject studied and work field, and remuneration[5]. MoNE's Situation Assessment Studies, which track student achievement in grades/subjects, are used to compare regions, schools and programmes, and to inform policy development and international surveys. In 2016-17, the Turkish Statistical Institute launched the Official Statistical Programme to integrate VET work-based learning data for monitoring purposes.

Source: MoNE (2018[30]), *E-Graduates website*, https://emezun.meb.gov.tr.

Women's entrepreneurship

Support for women's entrepreneurship is well articulated in Turkish policies as an integral component of women's economic empowerment and other related policies. This includes programmes under the Tenth Development Plan (2014-2018) for improving labour market effectiveness and increasing female labour force participation and employment, which envisage comprehensive support measures to women entrepreneurs. Seen by the Turkish government as a cross-sectoral policy issue, women's entrepreneurship is directly addressed in the Women's Strengthening Strategy and Action Plan (2018-2023) in which women are given priority in support for innovation, productivity, employment and growth. These documents outline specific actions to stimulate women's engagement in entrepreneurship in the sector of information and communication technologies, and to ensure availability of counselling and guidance for women entrepreneurs on business development. Measures to facilitate women's access to state support are planned and budgeted, with KOSGEB in charge of implementation.

Two other key government action plans also foresee a set of measures for supporting women's entrepreneurship: the Entrepreneurship Strategy and Action Plan (2015-2018) and National Employment Strategy and Action Plan (2017-2019). The latter seeks to reduce women's informal employment, among other actions. As part of the Entrepreneurship Strategy and Action Plan, the government is also promoting and expanding the Woman Entrepreneurship Ambassadors Project run by the Women Entrepreneurs Association of Turkey (KAGIDER); training needs analyses of woman entrepreneurs by the Women Entrepreneurs' Council; and analysis of women's entrepreneurship issues by the Ministry of Labour, Social Services and Family. The Entrepreneurship Strategy and Action Plan also aims to develop and implement a sustainable support system for women entrepreneurs in Turkey. These highlight the government's substantial efforts to build a comprehensive policy support framework for women entrepreneurs – among other special target groups – that would ensure long-term, sustainable results and promote cross-sectoral policy linkages.

The Entrepreneurship Council is strongly promoting women's entrepreneurship, implemented through non-formal partnerships involving both government and non-government organisations ranging from ministries, KAGIDER, the Union of Chambers and Commodity Exchanges of Turkey (TOBB), the Women's Entrepreneurship Board, and the Turkey Business Women Association, to Vodafone Turkey and the Turkey ICT Foundation. Many partners are engaged in awareness raising and promotion, including the Ministry of Labour, Social Services and Family, KOSGEB and TOBB. The Confederation of Turkish Tradesmen and Craftsmen (TESK) has run entrepreneurship training for women as part of EU projects funded by the Instrument for Pre-accession Assistance (IPA) and also through close co-operation with KOSGEB. Since 2012, 645 women have been certified as entrepreneurs. Women were also given entrepreneurship training by the TESK ADAPTESK project funded by IPA. One awareness-raising action by KOSGEB envisages organising annual contests for successful women entrepreneurs. Partners also share good practice in women's entrepreneurship; one example is the organisation of International Women in Business Meetings by the TÜRKONFED Women in Business Commission, in partnership with its member associations and international organisations (UN Women and the United Nations Development Programme, UNDP). The government has also engaged major international support, including from the EBRD through its Finance and Advice for Women in Business Programme funded by the EU and the Republic of Turkey. The European Union; the Turkish Ministry of Labour, Social Services and Family; and the Turkish Employment Agency (İŞKUR) are supporting the programme for women entrepreneurs with EUR 38 million for credit enhancement, advice to small businesses and technical assistance for partner banks.

According to KOSGEB, women's participation in the government-supported entrepreneurship programmes is increasing, with the share of women attendees at KOSGEB's entrepreneurship training reaching 47%. Women also made up 47% of the 40 000 people who attended entrepreneurship training programmes organised in co-operation with İŞKUR under the Entrepreneurship Support Programme.

The government – through KOSGEB – monitors and evaluates the implementation of all programmes under the Entrepreneurship Strategy and Action Plan. It consolidates progress reports and presents them to the Entrepreneurship Council once a year. While the monitoring data are published in the Annual Activity Reports, access to evaluation results is confined to the data and analysis under the overall framework of the Entrepreneurship Strategy and Action Plan implementation, and in a number of programme-based reports (e.g. the EBRD's Finance and Advice for Women in Business Programme).

The way forward for Dimension 1

Despite excellent progress on implementation and building a strong policy environment for entrepreneurial learning, the challenge is still to develop a vision shared by all key stakeholders with the primary focus on teacher capacity and the availability of practical entrepreneurship experience to enhance learners' entrepreneurship key competences. Teacher capacity remains a challenge given the large size of the teaching workforce, especially in pre-service training.

Similarly, in women's entrepreneurship, a consolidated vision is needed to refine the national concept; systematise types of support; and improve the targeting, effectiveness and efficiency of programmes aimed at women entrepreneurs. The government's current efforts to attract women into male-dominated sectors should be fully supported and should include additional measures to stimulate enterprise growth and internationalisation, with a specific focus on women.

The following steps are a priority for this dimension:

- **Apply EU competence frameworks (EntreComp and DigComp) to align key competence developments in education across levels and parts of the education** system. At the operational level, create institutional platforms (expert or practitioner networks and groups) and take action to achieve specific policy objectives. For instance, key competence learning outcomes should be integrated in all subject areas; learners should experience a smooth transition between levels of education and different parts of the learning system, linked to the progression model of the EU key competence frameworks; the teaching methodology and design of the learning process in primary, general secondary, VET, higher education and in non-formal learning should be aligned; and a multi-stakeholder system should be set up to consolidate data sources and actions so as to anticipate skills needs, including entrepreneurial skills and competences.
- **Scale up the well-functioning e-Graduate system in VET to support impact evaluation across all parts of the learning system** (higher education, SME training, etc.). As noted in the previous assessment, it will be important to consolidate the available statistical data for evidence-based policy making.
- **Establish system-level, compulsory provision of practical entrepreneurship experience in upper secondary, VET and higher education.** For this, Turkey should provide the regulatory conditions to encourage co-operation between schools and the private sector, and set up system-level measures to support co-operation between schools and companies to provide practical entrepreneurship experience for all students at upper secondary, VET and higher education levels.
- **Check the gender sensitivity of new and existing policies affecting women's entrepreneurship**. This will require establishment of regulatory provisions and stronger policy partnerships and institutional networks tasked with policy analysis, leading to recommendations for policy makers on ensuring policies and implementation measures are gender sensitive across all policy domains.
- **Introduce targeted, cross-sectoral evaluation of entrepreneurial learning and women's entrepreneurship policies and programmes.** This should include analysing the impact of government investment in skills and competence development, and ensuring high-quality statistical evidence is available, covering all related support actions and relevant sources of funding. The government should also ensure that results are open to the general public by publishing evaluation reports on line.

Bankruptcy and second chance for SMEs (Dimension 2)

As a result of newly introduced restructuring mechanisms, Turkey has improved its performance in this dimension since the 2016 assessment from 2.85 to 3.23 (Figure 19.1). It is performing above the regional average of 2.87 (Table 19.6).

Table 19.6. Scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**2.86**	**2.39**
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.98	3.71
		Performance, monitoring and evaluation	3.00	2.46
		Weighted average	**3.59**	**3.21**
	Sub-dimension 2.3: Promoting second chance		**2.16**	**1.93**
Turkey's overall score for Dimension 2			**3.23**	**2.87**

According to the latest Financing SMEs and Entrepreneurs 2018 scoreboard, the number of bankruptcies (at court verdict) increased by 105.6% between 2015 and 2016 (OECD, 2018[31]).

State of play and key developments

Preventive measures and bankruptcy procedures

The insolvency regime is primarily governed by the Enforcement and Bankruptcy Law, enacted in 2004. The Turkish Commercial Code, Code of Obligations, Code of Civil Procedure and the Banking Act also govern some aspects of the insolvency system. Although the bankruptcy legislation does not apply to public organisations covered by the Public Financial Management and Control Law No. 5018, it applies to revolving fund enterprises of public organisations.

Until 2018, the Turkish legal framework proposed two main options: bankruptcy resulting in liquidation and postponement of bankruptcy. The latter was a stipulation enabling an insolvent company to avoid liquidation if its financial situation could be improved. Due to its nature, this mechanism could not be considered either as an out-of-court settlement or a debt restructuring scheme.[6] Thus, according to private sector interviews, it was mainly used by debtors as a tool to threaten creditors and to gain time as the postponement could be extended for up to seven years.[7] Applications to postpone bankruptcy were introduced in 2003, suspended in 2016 and resumed as of March 2018.

As bankruptcy postponement was not serving its intended purpose, the legislature made a new amendment to the Enforcement and Bankruptcy Law in March 2018.[8] The amendment introduces "concordat restructuring", a reorganisation scheme under the jurisdiction of commercial courts. Therefore, the process cannot be qualified as a pre-bankruptcy out-of-court settlement. Following these changes to the legal framework, two main proceedings are now available for distressed companies:

1. **Bankruptcy** resulting in liquidation, which can be initiated in three different proceedings: 1) ordinary bankruptcy, where a creditor initiates a bankruptcy proceeding against a debtor for debt collection purposes; 2) special bankruptcy, where a creditor

holding a negotiable instrument (e.g. cheque, bond) can initiate special bankruptcy proceedings; and 3) direct bankruptcy, where a creditor or a debtor can file for bankruptcy.

2. **Concordat restructuring** where a debtor who is currently unable to pay their debts – or likely to be unable to do so in the future – can conclude an agreement with creditors to restructure, reschedule or reduce the debt. Following the debtor's application, the specific restructuring agreements must be signed within two years. The approval of the agreement requires a double majority: half of the creditors representing at least two-thirds of the claims. The restructuring is subject to the ability of the company to repay its debts following restructuring. However, non-preferential creditors are not protected and the debtor can get rid of his or her debts by paying what is agreed in the concordat. If the requirements are not met, the reorganisation is refused by the court, resulting in liquidation.

According to Article 206 of the Enforcement and Bankruptcy Law, following the court's decision secured creditors are able to seize their collateral after reorganisation (no automatic stay) and they are paid first out of the proceeds of a bankrupt firm's liquidation. The law also stipulates that tax debts take priority over any other debts during bankruptcy. It gives top priority to the receivables of employees, including indemnities. There are restrictions; for instance creditor consent should be sought when a borrower files for reorganisation.

Bankruptcy decisions are published in the Trade Registry Gazette and the courts inform the relevant chamber of industry or commerce. However, following the decision, removal from the bankruptcy register and from the national credit blacklist is not automatic. The owner of the company needs to apply to the court, and the court informs all related bodies about closing the bankruptcy case including the Trade Register Office, the Banks Association of Turkey, chambers of commerce and/or trade, and the Capital Markets Board.

The public credit registry and the private registry credit bureau manage the exchange of credit information among financial institutions. Information on positive and negative credit is stored in the system. An entrepreneur can be deleted from these credit databases five years after full discharge.

Turkey has also established a National Judiciary Informatics System (UYAP) as an e-government initiative (see "Digital government services for enterprises" in Section Operational environment for SMEs (Dimension 4)) to reduce the time and cost of court processes, as well as increase the transparency of the judiciary system. As a central network project, UYAP encompasses all courts, public prosecutor services, prisons, other judicial institutions and other government departments in Turkey. Users and administrations can follow all the steps through the online system.

However, despite measures to lower the time and cost of resolving court cases, Turkey remains the poorest performer on resolving insolvency in the WBT region according to World Bank *Doing Business* indicators (World Bank, 2018[18]). In 2018, it took five years to resolve a case on average, compared to 3.3 years in 2015 (this was partly the result of the suspension of bankruptcy[9] between July 2016 and March 2018). Insolvency procedures cost 14.5% of the debtor's estate.[10] Major expenses include government charges at 4.5% and attorney fees at about 5% of the total expenses; the fees of administrators, auctioneers, accountants and other professionals involved in the insolvency proceedings make up the rest of the expenses. The recovery rate has fallen by almost half, from 27.9 cents on one owed dollar in 2015 to 15.3 cents in 2018. It should be added that Turkey is the only economy in the WBT region where the recovery rate has fallen (World Bank, 2018[18]).

The national SME Development and Support Organisation (KOSGEB) – as well as chambers of industry and commerce, banks and development agencies located in NUTS II regions – disseminate information on the government support available for entrepreneurs experiencing difficulties. Turkey is currently the only economy with websites or call centres for entrepreneurs concerned about their business failing; these are run by KOSGEB.

The economy's bankruptcy early warning infrastructure is poorly developed. The current system identifies companies when they are already distressed based on five financial indicators: 1) credits transferred to non-performing loans; 2) late or delinquent credit payments; 3) levy on immovable and movable assets; 4) cancelled cheques; and 5) protested bills.

Promoting second chance

There are no civic or economic consequences or restrictions are imposed during the period of bankruptcy that might prevent entrepreneurs from having a fresh start. However, according to private sector interviews, the government does not have an information campaign on promoting second chances. No public measures exist at local or regional level. There are also no training courses for entrepreneurs on starting afresh, and no information on second chance procedures on the government website.

Second chance is mentioned under the Turkish Entrepreneurship Strategy and Action Plan. The action plan aims to facilitate a second chance for bankrupt entrepreneurs but the strategy does not provide details on specific measures to achieve this.

The way forward for Dimension 2

Turkey can further improve its legal framework for bankruptcy and second chance policies in the following ways:

- **Develop a fully fledged early warning system**: SME owners tend to underestimate their financial difficulties and resist taking action to alleviate hardships. Turkey should consider introducing a system which would convince entrepreneurs to initiate recovery measures at an early stage. This might take different forms, but should include certain features. First, it should devise procedures to screen for early signs of SMEs in financial difficulties. Second, the identified SMEs should be approached and advised on objectively assessing their financial situation, as well as on the different recovery options available to them. Once better informed, SMEs would be able to take the necessary steps at an earlier stage, increasing their chance of survival. Early warning mechanisms created by EU Member States could offer a blueprint for Turkey (Box 19.3).
- **Introduce SME and entrepreneur fast-track bankruptcy proceedings into the law**. In the current system entrepreneurs need to file for bankruptcy in order to liquidate their business. However, bankruptcies, involving lower debt amounts, should not be governed by creditor committees and reorganisation plans should not be required to meet the current complicated standards designed for larger, more complex bankruptcies. Setting a turnover or debt threshold below which

entrepreneurs can apply for fast-track procedures will lower the administrative burden and case backlog.

- **Further reduce the average cost and duration of bankruptcy proceedings**. There is a strong correlation between average cost and duration of bankruptcy proceedings. Therefore stricter rules should be enforced for managing bankrupt estates, as well as the fees and awards paid to bankruptcy administrators. For instance, setting a time limit on the period in which fees are paid to bankruptcy administrators would provide additional incentives for a quick resolution of bankruptcy cases, and reduce their costs.
- **Allow automatic discharge for entrepreneurs after liquidation**. Providing clear rules for an automatic discharge would allow bankrupt entrepreneurs to efficiently re-integrate as soon as the judiciary decision is taken.

Box 19.3. Early Warning Europe

The international project Early Warning Europe (EWE) was developed with the objective of promoting SMEs' growth across Europe by assisting them during financially difficult periods. In 2016, Early Warning Europe applied for funding through Europe's Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) programme and obtained almost EUR 5 million. The first wave of the project ran for three years and focused on setting up a full-scale early warning mechanism in Poland, Italy, Greece and Spain.

The consortium is comprised of 15 partners in 7 countries including mentor partners Early Warning Denmark, TEAM U in Germany, Dyzo in Belgium, authority partners such as the Danish Business Authority, the regional government of Madrid and the Polish Agency for Enterprise Development, as well as EU-level associations such as the, European Small Business Alliance, Eurochambres and SME United. The Early Warning Europe project is financed by COSME and aims to provide assistance to businesses and entrepreneurs in trouble, as well as those who wish to better anticipate problems. The project builds new best practice and draws on existing experience from these 15 organisations. Currently, five new EU Member States are in the process of joining the EWE community, and several others have expressed their interest. EWE is open to all COSME countries, and the expansion in phases gives access to the early warning mechanisms foreseen in the upcoming EU Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures.

The consortium is composed of three groups of organisations: 1) mentor organisations with substantial experience in providing support to companies in distress; 2) national or regional organisations that intend to implement early warning mechanisms; and 3) organisations that are responsible for supporting the pan-European communication and dissemination activities of the project.

Through EWE, entrepreneurs can receive help from consultants to get a clear overview of the company, identify the areas which are causing problems, and propose further remedial activities. The second step of the restoration process is collaboration with a mentor. Mentors work closely with the entrepreneur providing expertise, knowledge and support to get the enterprise back on the right track. Alternatively, they can guide companies toward a quick, organised closure when this is the best option for the company. This also contributes greatly to the company owner's chances of a second start and reduces the loss for the owner, the creditors and society as a whole.

Independent evaluations show a highly positive impact on society of the Early Warning system in terms of jobs saved and savings for the public treasuries. Evaluations show a general saving of 20% for the public treasuries on company closures under the Early Warning mechanism, a high level of job preservation and significantly better first-year turnover and growth after the Early Warning intervention.

An innovative element of the project is the introduction of artificial intelligence and the processing of big data in detecting early signs of distress in companies. Early Warning Europe has developed a data model that identifies the probability of distress in companies in Poland, Italy, Greece and Spain based on publicly accessible data, allowing the network partners to proactively assist companies that may not otherwise realise their problems before it is too late.

Currently the project has the support of more than 500 mentors. The support provided is impartial, confidential and free-of-charge. In the first wave, EWE provided support to 3 500 companies in distress in Poland, Spain, Italy and Greece. In its second wave (2017-19) the project will support the establishment of early warning mechanisms in five additional EU Member States, with the ultimate goal of establishing early warning mechanisms in all EU Member States.

Source: Early Warning Europe (2018[32]), *Early Warning Europe website*, www.earlywarningeurope.eu/.

Institutional and regulatory framework for SME policy making (Dimension 3)

With a score of 4.12, Turkey is one of the best performers in this dimension (Table 19.7). Its SME policy framework is quite advanced, with a comprehensive SME strategy in place that is being carried out according to plan. However, Turkey's performance has partially deteriorated in this cycle compared to 2016 due to a slight stagnation in the area of public-private consultations (Figure 19.1).

Table 19.7. Scores for Dimension 3: Institutional and regulatory framework for SME policy making

<table>
<tr><th>Dimension</th><th>Sub-dimension</th><th>Thematic block</th><th>Turkey</th><th>WBT average</th></tr>
<tr><td rowspan="12">Dimension 3: Institutional and regulatory framework for SME policy making</td><td rowspan="4">Sub-dimension 3.1: Institutional framework</td><td>Planning and design</td><td>4.47</td><td>4.06</td></tr>
<tr><td>Implementation</td><td>4.73</td><td>4.06</td></tr>
<tr><td>Monitoring and evaluation</td><td>4.52</td><td>3.92</td></tr>
<tr><td>Weighted average</td><td>4.61</td><td>4.03</td></tr>
<tr><td rowspan="4">Sub-dimension 3.2: Legislative simplification and regulatory impact analysis</td><td>Planning and design</td><td>4.49</td><td>4.00</td></tr>
<tr><td>Implementation</td><td>3.60</td><td>3.25</td></tr>
<tr><td>Monitoring and evaluation</td><td>3.25</td><td>3.23</td></tr>
<tr><td>Weighted average</td><td>3.80</td><td>3.47</td></tr>
<tr><td rowspan="4">Sub-dimension 3.3: Public-private consultations (PPCs)</td><td>Frequency and transparency of PPCs</td><td>3.27</td><td>3.86</td></tr>
<tr><td>Private sector involvement in PPCs</td><td>4.33</td><td>4.26</td></tr>
<tr><td>Monitoring and evaluation</td><td>3.77</td><td>2.73</td></tr>
<tr><td>Weighted average</td><td>3.79</td><td>3.79</td></tr>
<tr><td colspan="3">Turkey's overall score for Dimension 3</td><td>4.12</td><td>3.79</td></tr>
</table>

State of play and key developments

Institutional framework

The SME Strategy (2015-2018) is a well-developed, comprehensive document that is aligned with the national development strategy, the Tenth Development Plan (2014-2018). The key objectives of the SME Strategy revolve around export promotion and internationalisation, enhancing innovation and facilitating access to finance. Its measurable targets comprise: 1) increasing SME exports to USD 150 billion; 2) increasing the number of exporting SMEs to 60 000; 3) increasing the share of SMEs in commercial R&D expenditures to 33%; and 4) creating 3 million new jobs in SMEs. The Eleventh Development Plan was being prepared at the time of writing, with the Presidency's Annual Work Plan announced in October 2018 outlining the key actions to be carried out until the end of 2019. It builds on the Tenth Development Plan, including the same overarching targets across various policy areas (Box 19.4).

Box 19.4. SME policies in the Presidency's 2019 Annual Work Plan

The main goal for SME policies in the 2019 Work Plan is to improve SME entrepreneurship while fostering competitiveness, thereby boosting their contribution to economic growth. The plan is to improve the business environment by developing the capacities of all the actors operating in it. Support will be provided primarily to those enterprises that appeal to global markets, with the potential for fast growth and capacity for innovation in terms of products, operation model and marketing strategies. The main objectives in the area of entrepreneurship and SMEs for 2019 are:

- Improve the structure and functioning of technology development zones to foster co-operation between universities and industry, and scale up joint R&D and innovation activities between enterprises.
- Increase the institutional capacities and co-operation levels of all institutions and organisations providing services and support in the entrepreneurship ecosystem. Professional organisations with public legal personality will be restructured to bolster their contribution to the economy and support entrepreneurship.
- Increase the number and quality of incubators, business development centres and accelerators, ensuring that they deliver efficient services. To this end, support mechanisms will be developed collaboratively by the public sector, business and NGOs.
- Prioritise women's, youth and social entrepreneurship in the criteria for providing entrepreneurial and SME support, while emphasising the capacity for growth, innovation, productivity and employment growth, and co-operation. During implementation, monitoring and evaluation processes will be upgraded and impact analyses undertaken to measure the actual contribution to the economy.
- Strengthen SMEs' R&D, innovation and export capacities to boost internationalisation levels. Support will be provided for better organising and clustering SMEs, both among themselves and in collaboration with large enterprises, universities and research centres.
- Develop organised industrial zones, technology development zones, small industrial sites and industrial districts. To bolster the quality of their services, their institutionalisation and efficient administration will be ensured.
- Develop access to venture capital, business angel investments, credit guarantee funds, micro credit and capital market opportunities to broaden finance for new enterprises and SMEs (Development Plan).

Source: (Resmi Gazete, 2018[33]), http://www.resmigazete.gov.tr/eskiler/2018/10/20181027M1-1.pdf

As noted in the previous assessment, the leading SME implementation agency is the Turkish SME Development and Support Organisation (KOSGEB), affiliated to the Ministry of Industry and Technology. KOSGEB's General Assembly consists of government representatives as well as organisations representing the business sector and civil society. Its Executive Board also includes high-level representatives from the public and private sector. KOSGEB is a well-resourced SME agency, covering a wide range of SME supporting projects and programmes. Its regional offices give it a presence in all 81 of Turkey's provinces.

The SME strategy is monitored twice a year, at the end of January and the end of July. The organisations responsible for implementing the strategy submit their Target Progress Reports to KOSGEB, whose Strategy Development and Financial Services Department is responsible for overall monitoring. According to KOSGEB, 65 of the SME Strategy Action Plan's actions were in progress at the beginning of 2018, with 27 actions completed as of November 2018.

In 2018, Turkey amended the definition of SMEs, increasing the upper limit of annual net sales or financial balance sheet items to TRY 125 million (around EUR 22.5 million) from the previous TRY 40 million (around EUR 7.2 million). This resulted in about 9 000 additional enterprises qualifying as SMEs, i.e. those employing fewer than 250 employees, leaving only approximately 10 000 enterprises classified as large enterprises.

The **informal economy** is addressed by the Programme for Reducing the Informal Economy (2014-2018) as part of the Tenth Development Plan, published by the Revenue Administration in 2015. The programme aims to reduce both the informal economy's share of GDP and the share of informal employment in the non-agricultural sector by 5 percentage points. The programme's main actions include: 1) promoting voluntary regulatory compliance and improving the level of regulatory compliance; 2) strengthening the audit capacity of the responsible institutions and legislation review; 3) increasing awareness of the informal economy's harmful nature in the private sector and in society as a whole; and 4) improving inter-agency data sharing on the informal economy and enhancing overall inter-institutional co-operation in this area.

Legislative simplification and regulatory impact analysis

Legislative simplification in Turkey is part of the SME strategy. Business-related legislation with an impact on SMEs is being reviewed and simplified under the strategic target of "protecting SMEs in the process of improving the business and investment environment". However, to date no information on the proportion of legislation reviewed or simplified as part of the SME strategy has been made publicly available.

The Prime Minister's Office launched the Reduction of Bureaucracy and Simplification of Legislation (BAMS) initiative in 2014. To date, BAMS has resulted in 348 amendments to business-related regulations, the elimination of 3 148 documents from various application processes, and the digitalisation of a number of business-related services. BAMS also saw 406 business-related documents digitalised and the SME Information System commissioned in February 2018 (for more information on e-government, see Section Operational environment for SMEs (Dimension 4) on the operational environment for SMEs).

Measures aimed at simplifying legislation were also included in the Action Plan of the Programme for Reducing the Informal Economy (2014-2018). These mainly relate to facilitating transactions and operations in the taxation process. According to the progress report, by the end of 2015 all transactions in the taxation process had been revised and necessary amendments made. No new actions have been introduced or conducted since.

In Turkey, regulatory impact analysis is conducted for some business-related legislation. As of July 2018, the main institution in charge of RIA is the Presidency Organisation, which took over this task from the Office of the Prime Minister. The RIA Guide underlines the need to examine impacts on SMEs as part of the analysis. According to the Regulation on Legislation Preparation, a full RIA is formally required for business-related legislation whose probable annual effects are above TRY 30 million (around

EUR 5.4 million). A partial assessment is required for draft legislation which falls below this threshold. However, as a previous OECD study showed, in practice RIA is not conducted regularly, and even those draft laws with expected impacts over the TRY 30 million threshold lacked appropriate impact analyses (OECD, 2017[34]). The same study also showed that there was no evidence of a systematic review of policy proposals against set government priorities or of quality control of the RIAs carried out by ministries initiating the legislation (OECD, 2017[34]).

The RIA threshold was changed during the reference period. It had been set at TRY 10 million (around EUR 1.8 million) then raised to the current level in 2016. This change is expected to reduce the already relatively low frequency of RIA in Turkey. Finally, as for the last assessment, no RIAs are made publicly available on line.

Public-private consultations

Public-private consultations (PPCs) are still not formally required in Turkey. As in the previous assessment cycle, there are no legal or regulatory frameworks in place that define the general principles or procedures for conducting PPCs. While the RIA Guide encourages consultation with all related stakeholders, it is not mandatory. To date there is also no centralised online portal that lists all ongoing PPCs in Turkey, and participants' views in PPCs are not made public. Nevertheless, the National E-government Strategy (2016-2019) stipulates the introduction of a Legislative Participation Portal, to monitor legislative work conducted by the government and collect stakeholders' views on these legislative developments. It is not clear, however, whether this portal will act as an online PPC platform once it is established.

Private sector engagement is strongest in Turkey when developing new strategies and action plans. For instance, a wide group of stakeholders was consulted during preparation of the SME Strategy and the Entrepreneurship Strategy. Turkey also has councils designed to facilitate consultations with interested parties. For instance, the Entrepreneurship Council was established in 2012 and consists of public, private and academic representatives chaired by the Minister of Trade. It meets at least once a year to develop entrepreneurship through various initiatives. However, the same pattern is not observed for consultations on legislation. In 2017, only 40% of draft primary laws and 20% of draft subordinate laws were open to consultation. Like some other WBT economies, Turkish laws are predominantly adopted without any PPCs. In 2016, 83% of all laws were adopted this way, which is the highest share in the region, followed by the Republic of North Macedonia at 70% and Serbia at 65% (OECD, 2017[34]). An example of good practice is the technical sectorial committees established and chaired by the Ministry of Industry and Technology, with private sector association and business members. Consultations usually take place in these committees before technical legislation is adopted.

Private sector participation in PPCs is mostly indirect, occurring through the Union of Chambers and Commodity Exchanges and other business associations and chambers according to their area of work. When it comes to monitoring PPCs, no government body is responsible for overseeing the consultation process.

The way forward for Dimension 3

Turkey has established a solid institutional and regulatory framework for SMEs. Going forward, it should place more emphasis on the following points:

- **Improve the quality of legislative simplification actions.** In Turkey, legislative simplification has been undertaken as part of a variety of initiatives and strategies. The SME strategy includes regulatory review and its actions are being implemented. However, there are no records of the share of legislation that has been reviewed, simplified or eliminated as part of the strategy. During the assessment period, Turkey's efforts under the BAMS initiative mostly revolved around digitalising public services. Therefore the government is recommended to pursue a continuous and systematic legislative review process, with regular data collection and monitoring of its effects. The business sector needs to be an integral part of the process. Denmark's Business Forum could serve as a good practice example (Box 19.5).

Box 19.5. Denmark's Business Forum for Better Regulation

The Business Forum for Better Regulation was launched by the Danish Minister for Business and Growth in 2012. Its objective is to ensure that business regulation is renewed in close dialogue with the business community by identifying those areas that businesses perceive as the most burdensome, and proposing simplification measures. These measures might include changing rules, introducing new processes or shortening processing times. The forum's definition of a burden is broad and includes compliance costs and adaptation costs ("one-off" costs related to adapting to new and changed regulation), as well as administrative burdens.

Members of the business forum comprise industry and labour organisations, businesses, and experts in regulation simplification. They are invited by the Ministry for Business and Growth either in their personal capacity or as a representative of an organisation. The forum meets three times a year to decide which proposals to send to the government. So far, its proposals have covered 13 themes, ranging from the employment of foreign workers to barriers to growth. Interested parties can also submit proposals for potential simplifications through the forum's website. All the information on meetings and the resulting initiatives is available on line.

Proposals from the Business Forum are subject to a "comply or explain" principle, meaning that the government must either implement the proposed initiatives or justify why it has not done so. As of October 2016, 603 proposals had been sent to the government, of which 191 have been fully implemented to date and 189 partially implemented. The cumulative annual reduction in burden of some initiatives has been estimated at DKK 790 million (Danish crowns, or EUR 106 million). Information on the progress of the implementation of all proposals is available through the forum's website. The results are updated three times a year. The Business Forum publishes annual reports on its activities, while the Danish Minister for Business and Growth sends annual reports on the activities of the Business Forum to the Danish parliament.

Sources: OECD (2017[35]), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy*; Business Forum for Better Regulation (2018[36]); Business Forum for Better Regulation website, www.enklereregler.dk.

- **Enforce the effective application of RIA.** As stated above, RIA is conducted for some legislation in Turkey, but inconsistently, and it only assesses budgetary impact. It seems that RIA is not fully recognised as a regulatory review mechanism or a tool for improved government decision making. Turkey therefore needs to improve the quality of RIA analysis and rigorously fulfil its quality control function in practice. The President's Office, as the responsible institution, is encouraged to step up its efforts to improve RIA and ensure that ministries proposing new legislation perform RIA appropriately. The government is also recommended to enhance the analytical depth of full RIA, in particular by ensuring that the impacts on SMEs are properly evaluated. RIA findings should also be made available on line.

- **Introduce a formal requirement to conduct PPCs in Turkey and ensure their effective implementation**. Currently, there is no formal requirement to conduct PPCs in Turkey, although the government does usually gather private sector inputs on the strategies and action plans that affect them. No centralised online portal for PPCs has been established, and more than 80% of laws are adopted without any consultation. The government therefore needs to institutionalise the consultation mechanism and increase the frequency and transparency of PPCs. In particular, when private sector inputs are sought, it needs to ensure that the relevant stakeholders are informed about how their inputs have been taken into account, and if not, the reasons why. The Legislative Participation Portal should serve as a centralised online PPC platform, and should be well designed and consistently used. An example from the Slovak Republic could be used as a blueprint (Box 19.6).

Box 19.6. Tools to foster public consultations: The Slovak Republic's government consultation portal

In the Slovak Republic, public consultations are required for every legislative proposal submitted to the government. All legislative drafts and their accompanying impact analyses are automatically published on the government portal at the same time that they enter the inter-ministerial comment procedure. The portal provides a single access point to comment on legislative proposals and non-legislative drafts (e.g. concept notes, green or white papers). It seeks to ensure easier orientation and searches of legislative materials to make it easier to evaluate the inter-ministerial consultation process, and to support compliance with legislative rules and time limits.

Public authorities and members of the general public can comment on the legislative drafts and the accompanying material. All comments submitted are visible on the website. The deadline for comments is usually 15 working days. The general public can also access all final legislation through the government portal. Written comments can be submitted by the public either as individual comments or as "collective comments", to which individuals or organisations can signal their support. Whenever a comment receives support from 500 individuals or organisations, ministries are obliged to provide written feedback on the comment, either taking it into consideration in the legislative proposal or explaining why it has not been taken into account. The feedback provided is then part of the dossier submitted to the government for discussion.

Virtually all legislative proposals are adjusted following the consultation process. The number of comments received varies significantly for different legislative proposals. Accompanying impact analyses of the legislative proposal are also updated on the basis of comments received. Following each consultation process, a summary of comments received together with the reasoning for their inclusion or non-inclusion is published on the portal.

Source: OECD (2017[35]), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy* www.oecd.org/governance/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm; Ministry of Justice (2018[37]), Slov-Lex, www.slov-lex.sk.

- **Analyse the impact of the revised SME definition**. There is no unique, universally accepted definition of SMEs. Although the definition of SMEs seems mainly relevant for statistical purposes, its real importance lies in assessing SMEs' broader contribution to the economy, and subsequently in devising strategies and support programmes for them. Before amending the SME definition in Turkey, KOSGEB sought views from various private sector and public organisations. However, there is no evidence that consideration had been given to how the changes in SME definition would broadly affect SMEs or the public support programmes targeting them. Therefore, KOSGEB is encouraged to analyse the potential impact of the new SME definition, in terms of the practical difficulties and administrative burdens likely to be faced by micro and small enterprises in particular, as well as on the final beneficiaries of existing support programmes.

Operational environment for SMEs (Dimension 4)

Turkey has succeeded in its efforts to improve the operational environment for SMEs since the 2016 assessment (Figure 19.1). This progress is reflected in its score, which has improved from 3.12 to 3.56, slightly above the regional average of 3.4 (Table 19.8)

Table 19.8. Scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for enterprises	Planning and design	4.72	4.07
		Implementation	4.20	3.47
		Monitoring and evaluation	2.47	2.05
		Weighted average	**3.92**	**3.29**
	Sub-dimension 4.2: Company registration	Design and implementation	4.00	4.48
		Performance	3.17	3.72
		Monitoring and evaluation	3.40	3.59
		Weighted average	**3.59**	**3.97**
	Sub-dimension 4.3: Business licensing	Licence procedures	3.16	3.67
		Monitoring and streamlining of licence system	1.69	3.18
		Weighted average	**2.43**	**3.43**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Turkey's overall score for Dimension 4			**3.56**	**3.45**

Note: A new sub-dimension 4.4 on tax compliance procedures for SMEs was added at the request of the assessed economies, to better reflect the complexity of the overall picture of the operational environment for SMEs, however, as it is a pilot analysis this sub-dimension has not been included in the scoring.

State of play and key developments

Digital government services for enterprises

Since the 2016 assessment, Turkey has made considerable progress in integrating digital government into public administration reforms.

In 2016, the Turkish government adopted the National E-Government Strategy and Action Plan (2016-2019), co-ordinated by the Ministry of Transport, Maritime Affairs and Communications. The strategy outlines the roadmap for digital government services and ensures continuity from the previous e-government strategy (2015-18). Four strategic targets have been established, in line with the previous strategy: 1) ensuring the efficiency and sustainability of the e-government ecosystem; 2) implementing common systems for infrastructure and administrative services; 3) achieving e-transformation in public services; and 4) enhancing use, participation and transparency.

As part of this strategy, the services offered by the e-government portal established in 2008 (https://www.turkiye.gov.tr/) have proliferated. The portal is designed to provide citizens and enterprises with a single access point for electronic services. It also functions as an interoperability system, allowing public sector agencies to interact with each other. Turkey also belongs to the European Interoperability Framework, which supports the economy's efforts in establishing a fully functional interoperability network.

As of February 2016, the portal included more than 1 400 services from 216 different agencies, as well as information about administrative procedures and links to the services provided directly through each public agency's website. There are over 26 million registered users.

In 2016, to widen the use and the range of electronic services, the Turkish government started to replace its non-electronic ID cards with electronic ones (e-IDs). The government expects to finish the replacement process by the end of 2020. By then the objective is to increase electronic authentication capacity for e-government services and update electronic service platforms to enable the use of e-IDs.

The system for filing tax returns on line is now fully operational. According to the 2017 ICT Technology Usage in Enterprises Survey, carried out by TUIC, 53.5% of all enterprises declared their VAT on line (TUIK, 2017[38]). The same survey also found that 55.8% of all enterprises filed their social security returns on line. Pensions are paid through the social security funds online payment system and some cadastre processes are carried out through the national portal.

There is no specific legislation yet for including e-government policies in public administration. Each ministry is responsible for their own domain according to their competences. However, to close this legislative gap, in September 2016 the government adopted the Regulation on the Procedures and Principles Concerning Conducting e-Government Services.[11] This regulation aims to establish common binding principles for public institutions on digital services.

Despite Turkey announcing its interest in open government in September 2016, the Steering Committee of the Open Government Partnership has designated the economy as "inactive" because the government did not engage with the committee and has failed to deliver an action plan since 2014. As result, in 2017 Turkey was withdrawn from the partnership.

Open government data (OGD) is part of the 2016-19 National E-Government Strategy and Action Plan under the strategic aim of "enhancing usage, participation and transparency". The planned actions cover a broad range of services such as developing an open data sharing portal, transforming public data into open data and sharing data, and developing a public investment and realisation monitoring portal. The strategy mentions developing actions to promote the reuse of OGD for economic value creation. One of the targets specified in the document is as follows: "Open data will be used to increase efficiency and create economic value with new products/services". However, evidence shows that the appropriate legislation is lacking. According to the results of the OECD Open Government Data Survey 3.0, Turkey reported the absence of formal requirements stating the obligation of public sector organisations to anonymise data before publication. (OECD, 2018[39]).

The government uses surveys, conducted and assessed by TUIK as part of the Satisfaction in Life Survey, to collect information about the use, satisfaction with and effectiveness of e-government services. As a result, Turkey is one of the few WBT economies to collect data on satisfaction with public services and provide them in electronic format (Turkstat, 2017[40]). However, the entire survey is only available on request and after approval. The metadata is not provided in machine-readable format nor via a centralised web portal, but can be only acquired on a CD-ROM (Turkstat, 2017[41]). In addition there is no evidence that the administration makes adjustments based on the survey results or that there are any follow-up measures.

Business registration and licensing

Turkey offers one-stop shops for online company registration through the Central Commercial Registration System (MERSIS). However, this process is not yet fully digital; the entrepreneur must be physically present. Registration cannot be done at a single window – entrepreneurs are required to complete different steps at different windows in the same location.

Three company identification numbers are used during the registration process: 1) tax number (or tax identification number); 2) social security number; and 3) trade register number. All company types have to conduct a similar process. They have to register at the tax office, trade registry office and social security administration. For limited liability companies and corporate foundations, the companies have to deposit 0.04% of their capital at the Competition Authority.

Between 2016 and 2018, Turkey slightly increased the time needed to register a business by one day. At present, it takes seven days to complete the overall company registration process, including obtaining compulsory licences for standard business activities – this is the third quickest in the WBT region. However, the economy has the third highest cost of starting a business in the WBT region, at 10.6% of income per capita, after Bosnia and Herzegovina and Albania (World Bank, 2018[18]).

The Regulation on Business Licensing[12] serves as written guidance on the procedure of obtaining a licence. Each ministry and municipality is responsible for issuing licences according to their competences. All decisions about whether or not to grant a licence are documented in writing. However, evidence shows that the information collected for a licence is not systematically shared with other authorities,[13] so that entrepreneurs have to submit the same information for different processes. Thus, the licensing fees[14] do not comply with the cost-recovery principle.[15]

The economy still does not digitally assign officials responsible for granting the licence. Turkey is planning to simplify the licensing procedure by introducing the *perakende bilgi sistemi* (PERBIS) platform. This already exists as a pilot and will serve as a centralised system for business licence applications, creating a single entry point for various applications. It is expected to start operating in the first quarter of 2019.

Evidence shows there is no generic law for applying the silence-is-consent[16] principle in Turkey. Only one reference is made to it under Article 96 of the Enforcement and Bankruptcy Act, which states that the silence-is-consent principle is to be used in most areas of the public administration. However, the article stipulates that the meaning of the principle changes according to the area of implementation, i.e. silence does not always mean accepting the claims. There is no evidence that the principle has been adopted in other policy areas.

Tax compliance procedures for SMEs

Turkey has a single replacement tax regime for SMEs which brings together several elements. SMEs, unincorporated businesses which have an annual revenue of less than TRY 148 000 (around EUR 26 600) and an annual rental cost of less than TRY 7 400 (around EUR 1 300) in 2018 are subject to the single replacement tax regime called *basit usul vergisi*. This regime, aimed at micro businesses, was first introduced in 1998 to encourage the formalisation of businesses by simplifying tax compliance requirements.

A presumptive tax scheme exists for income taxation of unincorporated businesses, which is calculated on the basis of annual revenue and costs of renting (or imputed rental value if the entrepreneur owns the business property). Those eligible under the *basit usul vergisi* regime are not required to prepare withholding tax returns or to pay advanced tax. Moreover, their sales of goods and services are exempt from VAT, and they can deduct a standard amount of TRY 8 000 (around EUR 1 400) from their annual revenue. These businesses are also exempt from bookkeeping, and they are only required to complete a special tax return and submit it to the Tax Administration.

There are no tax incentives schemes for SMEs for other taxes. No information is available on the existence of any assessment of the effective tax burden imposed by presumptive tax regimes, or whether the tax scheme encourages businesses to remain small.

The way forward for Dimension 4

Despite progress in the operational environment, some challenges remain. The following steps should be considered:

- **Continue implementing digital authentication system or e-signatures** to widen the range of e-services. E-signatures or digital authentication allow users to complete all processes on line and save time rather than having to be physically present, as required by the current system. The government needs to continue implementing the digital authentication system by replacing current IDs with eIDs to allow SMEs to complete procedures on line.
- **Make the company registration process fully on line**. This will give the government an overview of the registration process and improve its efficiency. It will save time and reduce both the cost and the number of required procedures.
- **Continue to centralise the licensing process through PERBIS**. This single co-ordination body will increase transparency, speed up processes, help carry out effective monitoring and streamlining, and lower administrative burdens and costs for SMEs.
- **Improve the monitoring and evaluation of simplified tax regimes**. The government should ensure the effective tax burden on SMEs is being properly monitored. More efficient monitoring would help deepen the analysis of the impact of various taxes imposed on SMEs and help government strike an effective balance for taxation policy.

Support services for SMEs (Dimension 5a)

As in the 2016 SME Policy Index assessment, Turkey achieved the highest score (4.42) of the seven assessed economies for its business support services (BSSs) for SMEs (Table 19.9). Indeed, it achieved the highest score in both the first sub-dimension (4.39) – support services provided by the government – and the second sub-dimension (4.44) – government initiatives to stimulate private services – outperforming the WBT sub-dimension averages of 3.63 and 4.14 respectively.

Table 19.9. Scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 5a: Business support services for SMEs	Sub-dimension 5a.1: Business support services provided by the government	Planning and design	4.11	3.84
		Implementation	4.58	3.68
		Monitoring and evaluation	4.36	3.19
		Weighted average	**4.39**	**3.63**
	Sub-dimension 5a.2: Government initiatives to stimulate private business support services	Planning and design	5.00	4.67
		Implementation	4.29	3.85
		Monitoring and evaluation	4.00	4.07
		Weighted average	**4.44**	**4.14**
Turkey's overall score for Dimension 5a			**4.42**	**3.89**

State of play and key developments

Turkey has a well-developed and extensive landscape of public BSSs for SMEs. Public sector provision of BSSs has a broad geographical reach and is varied, providing different forms of services for SMEs in different sectors and at different stages of their development. In addition to private sector providers or chambers of commerce, 14 public institutions provided more than 90 support programmes to benefit SMEs in 2018. KOSGEB is Turkey's dedicated public institution for providing BSSs to SMEs; other major public BSS providers include the Ministry of Industry and Technology, the Ministry of Trade, the Scientific and Technological Research Council of Turkey (TÜBİTAK), Turkey's 26 development agencies, enterprise development centres (İŞGEMs) and technology development centres (TEKMERs). KOSGEB provides its services through a total of 198 physical offices and 92 field offices, 78 representative offices and 28 technology transfer offices (TTOs) across Turkey's 81 provinces.

At the time of writing, two major strategy documents have framed BSS provision in Turkey: the Entrepreneurship Strategy (2015-2018) and the SME Strategy (2015-2018). Both were founded on the 2023 vision for Turkey and its Tenth Development Plan, and both are accompanied by action plans detailing the responsible institution(s), the implementation timeline and performance indicators for each measure. Unlike the SME Strategy action plan, the Entrepreneurship Strategy action plan includes measurable targets, facilitating monitoring. Both strategies were drafted by dedicated working groups from KOSGEB, following the International Organization for Standardization (ISO) 9000 standards to assure stakeholder input. To develop the SME Strategy, the KOSGEB Working Group conducted an Internet-based survey in which 3 697 SMEs participated and which helped identify challenges and priorities for designing BSSs. KOSGEB's actions are based on its 2016-2020 Strategic Plan, which also benefitted from stakeholder analysis via an Internet-based survey on KOSGEB's BSSs, to which 864 respondents provided feedback, 728 of which them SMEs. The strategic plan also includes measurable performance indicators for each action.

In 2017, KOSGEB had a total budget of about TRY 2 092 million (around EUR 504 million) and 1 210 employees, of whom 646 were SME experts (KOSGEB, 2018[42]). In the same year, KOSGEB provided three main types of support service to SMEs: 1) 11 support programmes under the KOSGEB Support Programmes Regulation (ranging from training, R&D and innovation support, to promotion and marketing and accelerator programmes); 2) the Support to SMEs' Bank Loan Interests programme; and 3) the Laboratory Services programme (technical support). KOSGEB also co-ordinates Turkish SMEs' participation in the EU COSME programme.

According to data provided by KOSGEB for this assessment, more than 1.4 million SMEs – about 45% of all Turkish SMEs – were included in its database at the time of writing, as having been either informed about or applying to KOSGEB's BSSs. KOSGEB data received for this assessment also indicated that 18.6% of all SMEs in Turkey had used one of KOSGEB's publicly (co-)financed BSSs for general information, training, consulting and mentoring, or support to participate in a trade fair in 2017. This figure is considerably higher than in the six Western Balkan economies, where only 3.3% of SMEs on average used such publicly (co-)funded BSSs.

In 2017, 289 937 SMEs – or 9.4% of Turkish SMEs – used KOSGEB's Support to SMEs' Bank Loan Interests programme. This programme has mostly benefitted micro enterprises, which accounted for 92.4% of its beneficiaries in 2017 (KOSGEB, 2018[42]). Other popular programmes were KOSGEB's Applied Entrepreneurship training, its co-financing support as part of its General Support programme and its New Entrepreneur Support programme. Provided under the KOSGEB Support Programmes Regulation, in 2017 these programmes' beneficiaries were mostly micro enterprises (60.3%) and small enterprises (23.1%) (KOSGEB, 2018[42]).

The Applied Entrepreneurship training is free of charge and offers a minimum of 46 hours of theoretical training and 24 hours of workshops, on topics such as business plan development, market analysis and entrepreneurial skills. These courses have a wide geographical reach since they are carried out by a range of institutions and organisations across Turkey, including municipalities, professional associations, higher education institutions and development agencies. Those who complete the training are eligible to apply for KOSGEB's New Entrepreneur Support programme. In 2017, 217 291 SMEs or entrepreneurs benefitted from the course, corresponding to about 7% of all Turkish SMEs (KOSGEB, 2018[42]).

KOSGEB operates co-financing schemes under its General Support and New Entrepreneur Support programmes. The three-year General Support programme offers co-financing for 15 types of support, including consultancy and training. There is an upper limit for each type of support; for consultancy the limit is TRY 22 500 (about EUR 4 000) and for training it is TRY 20 000 (about EUR 3 600). The co-financing rate for all types of support is 50%, 60% or 70% of admissible costs, depending on the region the SME is registered in; the programme provides more support to SMEs in less developed regions, mostly in Turkey's eastern and southeastern provinces. In KOSGEB's New Entrepreneur Support programme the co-financing rate is also determined by region. KOSGEB also offers more favourable co-financing rates for women entrepreneurs, disabled entrepreneurs and other specific or vulnerable categories. In 2017, 35 071 SMEs

(1.1% of all Turkish SMEs) used support from the General Support programme and 15 544 (0.5%) used the New Entrepreneurship programme (KOSGEB, 2018[42]).

For quality assurance, the private sector providers used for KOSGEB's co-financing schemes must be consultants certified by the Turkish Vocational Qualifications Authority or universities accredited by this authority.

Turkey's public institutions regularly monitor their BSS provision. Since its adoption in 2003, Turkey's Public Financial Management and Control Law regulates, among other things, financial auditing practices for public institutions. Following this law, KOSGEB's BSS provision is regularly audited internally by KOSGEB's monitoring unit, while Turkey's State Aids Monitoring and Supervision Board audits the programmes externally. KOSGEB publishes detailed annual performance reports, which are publicly available on its website. The performance reports detail the number of beneficiaries for each support programme and their location. They also quantify the actions implemented under KOSGEB's 2016-2020 Strategic Plan and its annual work programmes. After they have received support, each beneficiary needs to answer a questionnaire and provide information on the quality of the service received. Since SMEs need to register in KOSGEB's database to apply for support, it is possible to measure the impact of the support programmes they have received on some of the basic indicators SMEs need to provide, such as their balance sheet or the number of exports.

KOSGEB's website allows SMEs to register for its database in order to apply for various BSS programmes. Unlike other economies in the region, KOSGEB's webpage provides centralised information on BSS programmes from all public institutions, searchable by support category, support type and institution. It also provides a link to a new online training platform (kobikampus.kosgeb.gov.tr), which is supported by KOSGEB and provides online training on various topics ranging from marketing and sales to the environment and safety.

The way forward for Dimension 5a

A wide range of BSSs provided by many public institutions and private sector providers are available to SMEs in Turkey. SMEs' uptake of these services has been fairly high compared to the other six assessed economies, which indicates that the services on offer respond well to SMEs' needs. In order to further improve its BSSs, Turkey could consider the following:

- **Improve the evaluation of support programmes' (long-term) effectiveness by conducting regular impact analyses**. In 2018, the Ministry of Industry and Technology undertook a pilot impact analysis of KOSGEB's Design Support scheme, one of the 15 co-financing programmes under KOSGEB's General Support programme. One main finding was that the firms would still have embarked on their project even if KOSGEB's support had not been available. Therefore, KOSGEB should conduct regular impact analyses of all support schemes, and continue only those that are most needed by Turkish SMEs. KOSGEB has a dedicated department for monitoring and evaluation that has mainly dealt with the design of its planned support programmes so far. Going forward, this unit should carry out regular evaluation studies of the ongoing support programmes.
- **Consolidate and streamline the SME support measures**. In 2018, 14 public institutions offered more than 90 support programmes to benefit SMEs. With

such a large number of measures available both at national and local level, it is important to avoid overlaps and create further synergies among public institutions so as to increase the programmes' impact.

- **Stagger the reimbursement of funds under co-financing programmes** Currently, SMEs can claim reimbursement for support services from KOSGEB's co-financing programmes by presenting invoices and receipts. However, this might deter micro and small companies with scarce resources from applying. Instead, KOSGEB could provide a first tranche of funding when an SME is officially accepted in the scheme, and a second tranche after successfully completing the project. KOSGEB could also consider tailoring the co-financing support according to enterprise size, thus co-financing a higher percentage of costs for micro and small companies.

Public procurement (Dimension 5b)

Turkey obtained a weighted score of 3.66 (Table 19.10) for this dimension. While this is a worse result than in 2016 (Figure 19.1), it should be noted that changes in the assessment framework mean that 2019 and 2016 scores are not directly comparable.

Table 19.10. Scores for Dimension 5b: Public procurement

Dimension	Thematic block	Turkey	WBT average
Dimension 5b: Public procurement	Policy and regulatory framework	3.90	**3.92**
	Implementation	3.57	**4.05**
	Monitoring and evaluation	3.57	**3.24**
Turkey's overall score for Dimension 5b		**3.66**	**3.84**

State of play and key developments

The legislative framework covering public procurement consists of the Public Procurement Law (PPL), adopted in 2002 and changed many times up until April 2015; the Public Procurement Contract Law; and a comprehensive set of secondary and tertiary legislation. When awarding contracts, the contracting authorities are obliged to respect the general principles of transparency, competition, equal treatment, reliability, confidentiality, public supervision, and appropriate and prompt fulfilment of needs with the efficient use of resources.

An exception to the principle of equal treatment for all suppliers is that the PL provides for preferential treatment of domestic economic operators. There are two types of domestic preferences in the PPL: 1) the right to exclude foreign suppliers from public procurement procedures; and 2) a margin of preference applied in favour of domestic suppliers in evaluating tenders. In the first case, contracting authorities may decide that foreign economic operators will not be allowed to participate in a given procurement procedure (this is left to their discretion). In the second, a price advantage of up to 15% should be provided in favour of Turkish bidders in services and works, and to bidders (both domestic and foreign) offering Turkish products where the supply of goods is involved. Foreign bidders can also benefit from the price advantage if they obtain a domestic goods certificate for items they produce in Turkey, or offer products with a domestic goods certificate. Where tenders are found to be equal at the evaluation stage, preference may be given to the supplier whose offer contains more Turkish content. Compulsory domestic preferences (a price advantage of up to a maximum of 15%) are applied when purchasing medium- and high-technology products. In 2015, the Ministry of Industry and Technology adopted a list of these products. The list is updated in January of each year based on opinions in the sector, and is reported to the Public Procurement Authority (PPA).

In accordance with the principle of transparency, public procurement notices are published in the Public Procurement Bulletin and on the Electronic Procurement Platform (EKAP) maintained by the PPA. Contracting authorities should provide detailed information about a given procurement procedure in the tender documents, which should contain the minimum content specified in the PPL. The PPL envisages the usual tools for facilitating SME access to public procurement. For instance, public contracts may be divided into smaller lots to enhance SME participation. Access to public procurement is open to natural or legal persons, as well as groups of economic operators (joint ventures) formed by natural or legal persons. The PPL provides more detailed rules on the requirements that must be satisfied by these groups. Joint participation by suppliers may take the form of either a business partnership or a consortium; the difference is that members of a business partnership carry out the whole business jointly, and have equal rights and responsibilities, while members of a consortium separate their rights and responsibilities according to their field of expertise, to carry out relevant parts of the business. Business partnerships may participate in any kind of procurement. However, if different types of expertise are needed, the contracting authorities should indicate in tender documents whether or not a consortium is allowed to submit tenders.

The PPL specifies what types of document must be submitted by economic operators in order to prove they are able to perform the contract in question. The purpose of these documents is to demonstrate their economic, financial, professional and technical qualifications. The PPL also defines the conditions under which economic operators are deemed to be ineligible and should be excluded from public procurement procedures. The tender documents (and notices or invitations relating to procurement or pre-qualification) prepared by the contracting authorities should state what requirements and documents economic operators need to supply in order to prove their qualifications.

Contractors can choose their subcontractors freely; however, they have to give the subcontractors' names to the contracting authority for confirmation. According to the general procurement specifications, subcontractors cannot undertake the whole work covered by the contract (subcontracts cannot amount to 100% of the contract).

The Public Procurement Authority, established in 2002, is responsible for implementing public procurement rules, disseminating information about procurement opportunities, monitoring of application of procurement rules and provision of trainings on public procurement, in addition to its role as the public procurement review body. It also operates the e-procurement system, EKAP. Members of the PPA board are appointed by the Council of Ministers following proposals by the Ministry of Treasury and Finance. The PPA provides training for both the contracting authorities and economic operators; however, no distinction is made between SMEs and other economic operators.

The review of decisions taken by contracting authorities concerning contracts falling within the scope of the PPL takes place in three stages: 1) complaint applications, submitted to the contracting authority concerned; 2) appeal applications, submitted to the PPA; and 3) appeals to the administrative court against PPA decisions. Legal standing (or access to review) is offered to "candidates, tenderers or potential tenderers" who claim to have suffered, or are likely to suffer, a loss of rights or damage due to unlawful procedures or actions within the tendering process. Complaints to the contracting authorities, in principle, may be submitted no later than ten days from the date on which the proceeding or action subject to the complaint has been realised or should be realised, and before the contract is signed. The period for complaint applications on the issues covered in the procurement notice starts from the date on which the notice is first published; the period for applications regarding provisions on pre-qualification, or requirements which are not provided in the procurement notice, should start to run from the purchasing date of the related document.

A separate department in the PPA deals with appeal applications. Elaborate administrative routines have been put into place in order to secure the independence and integrity of the PPA as the review body, and to resolve any conflict with the PPA's other functions (regulatory, monitoring and advisory).

The way forward for Dimension 5b

Turkey has established a solid institutional and regulatory framework for public procurement. Going forward, it should place more emphasis on the following points:

- **Further align national legislation with EU rules and international good practice**. In particular:
    - ensure that economic operators have access to public procurement on equal footing regardless of their origin
    - complete the implementation of the 2014 EU Public Procurement Directives, in particular those provisions relating to facilitating SME access to the public procurement market.
- **Reduce the administrative burden of participating in public procurements**. Evidence of qualifications and other supporting documents should only be required from bidders whose offers were evaluated to be the most advantageous. The bidders should only need to submit a declaration with their offer, confirming that they satisfy the requirements imposed by the contracting authority and will provide documentary evidence when the contracting authority demands it.
- **Focus on correctly implementing amended public procurement provisions** by providing consultation assistance and training both to contracting authorities and economic operators, especially SMEs; contracting authorities in particular should be trained in how to take SMEs' specific needs into consideration.
- **Constantly monitor and analyse obstacles** faced by SMEs in accessing public procurement markets, including the costs of accessing legal protection in public procurement (fees paid to independent review bodies in order to challenge contracting authority decisions).

Access to finance for SMEs (Dimension 6)

Already the strongest-performing economy covered in this report, Turkey has further improved its score on access to finance, from 3.89 to 3.99 (Figure 19.1 and Table 19.11). Part of this improvement is driven by methodological changes leading to the removal of savings and loan associations from the non-bank financing instruments assessment framework. However, there have also been real improvements in the financing environment for SMEs – mainly surrounding the legal and regulatory framework, venture capital and financial literacy.

Table 19.11. Scores for Dimension 6: Access to finance

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 6: Access to finance	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	3.56	4.20
		Registers	4.42	4.58
		Credit information bureaus	4.51	4.55
		Banking regulations	5.00	3.79
		Stock market	4.35	2.93
		Weighted average	**4.31**	**4.14**
	Sub-dimension 6.2: Bank financing	Banking lending practices and conditions	3.61	2.92
		Credit guarantee schemes	3.44	2.30
		Weighted average	**3.55**	**2.67**
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	2.33	3.57
		Leasing	3.33	2.84
		Factoring	3.50	2.45
		Weighted average	**3.06**	**2.95**
	Sub-dimension 6.4: Venture capital	Legal framework	4.67	2.32
		Design and implementation of government activities	4.91	2.48
		Monitoring and evaluation	4.33	1.48
		Weighted average	**4.71**	**2.22**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	3.45	2.44
		Monitoring and evaluation	2.33	1.19
		Weighted average	**3.22**	**2.19**
Turkey's overall score for Dimension 6			**3.99**	**3.53**

State of play and key developments

Legal and regulatory framework

Overall Turkey has a comprehensive legal framework for access to finance. However, the formal legal framework for secured transactions has room for further improvement. According to the World Bank's *Doing Business* report (World Bank, 2018[18]), Turkey scores 7 out of 12 on the "strength of legal rights index", which looks at creditor rights and collateralisation, compared to an average of 9 in the WBT region. Some improvements have been made since the previous assessment, including legislative changes stipulating that secured creditors are paid before taxes, thus strengthening creditors' position in insolvency cases. Restructurings and enforcements through court proceedings tend to be lengthy. For example, insolvency proceedings can take five years and the recovery rate is very low (14.7 cents on the dollar compared to 58 cents on average in the EU) (World Bank, 2017[43]; World Bank, 2018[18]). No simplified or fast track in court proceedings exist for liquidation or reorganisation (for more information see Section Operational environment for SMEs (Dimension 4)).

There have been some positive developments regarding registers for pledges over movable assets. A new law on pledges over movable assets was passed in October 2016 and entered into force in January 2017. It allows for non-possessory pledges in commercial transactions – a major change from the previous legal regime. It is possible to establish a pledge over individual assets rather than all movable assets within a commercial enterprise as a whole. The law also allows pledges over prospective movables and future receivables and expands the list of parties allowed to enter into pledge agreements. These changes are a positive step towards making the registration process less cumbersome and are particularly important for small businesses, as they may not have sufficient fixed assets to pledge.

Turkey has one credit registry bureau, the Credit Bureau of Turkey (KKB), which covers over 80% of the population. The KKB also operates the Risk Center, established in 2013 to collect risk information for regulatory purposes and provide risk analysis services. However, it does not collect information from sources such as retailers or utility companies. Having a formal record of such information linked to a credit check would allow more individual and small entrepreneurs to build a credit history without having had access to a bank loan.

The Basel core principles have been fully implemented, including Basel III requirements. In addition, banks are required to disclose the risks of foreign exchange borrowing to their clients. To curb the weakening of the Turkish lira, Decree No. 32 came into effect in May 2018, prohibiting foreign currency lending to individuals and unhedged borrowers, and banning foreign-currency indexed loans.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Bank lending has further expanded since the last assessment, with an annual credit growth of 9-21% since 2015. SMEs have also benefitted from this expansion in absolute terms – with SME lending almost doubling to TRY 693 billion in August 2018 from 389 billion in 2015 – even though their overall share in total loans has slightly declined, to around one-third of business loans (OECD, 2018[31]). One key driver for this has been the Credit Guarantee Fund, the KGF, which massively increased its operations thanks to significant Treasury backing. In 2017, guarantees of around TRY 200 billion (about EUR 36 billion) were extended under the scheme, compared to TRY 5 billion in 2016. The disbursement of these funds was aided by the introduction of a portfolio guarantee mechanism which moved away from loan-by-loan approvals of guarantees, making the scheme scalable and more efficient for banks. In addition, KOSGEB has a range of support programmes, some of which have a subsidised lending element (see Section 0 on business support services for a description of different programmes). All of this has contributed to relatively favourable conditions for SMEs to access financing. Bank coverage in rural areas and less developed regions remains sparse, but mobile banking is increasingly helping to include the rural population in the formal banking sector.[17] However, long-term financing remains an issue. While the availability of bank credit has improved in recent years, continued access will be highly dependent on macroeconomic developments. Future challenges to the lending environment may stem from a higher cost of lending, shorter tenors available in the market and foreign exchange market volatility.

Non-bank financing options provide a viable alternative to bank lending in Turkey. The leasing and factoring markets are some of the most advanced in the region, with penetration levels at close to 1% and 6% respectively, nearing average levels in the EU. While the leasing markets in most of the region are dominated by vehicle leasing, machinery and equipment leasing across a range of sectors makes up more than 70% of total leasing activities in Turkey,[18] reflecting a larger market and more manufacturing capacity in the economy overall. On the other hand, microfinance only exists at the level of smaller projects, mainly run by NGOs in less developed regions of Turkey. While the lack of a legal framework may contribute to this absence, the small loan amounts offered by microfinance may not be appropriate for the majority of businesses in the economy, which instead rely on banks for their financing needs.

Turkey has a number of initiatives to support start-ups and companies in their growth stage. Business angels, for instance, are very active and have significantly increased their investments to become one of the most active markets in Europe. According to data from the European Business Angel Network, Turkey's financiers have invested a total of EUR 52 million in 354 projects, putting it in fifth place behind the United Kingdom, Germany, France and Spain. There have also been attempts by the Treasury to develop the venture capital (VC) fund environment. A "fund of funds" approach under the Turkish Investment Initiative[19] is poised to be replaced by a new, more direct, mechanism. A proposal is in preparation to allow the Treasury to invest up to TRY 2 billion (about EUR 364 million) directly into VC funds for SME investments. However, while investment capital may be present in the economy, there is still the question of how realistic an exit from an equity investment is. Borsa Istanbul has a low capitalisation market targeted at smaller companies and partners with institutions such as KOSGEB to encourage listings. However, exit opportunities beyond initial public offerings are rare, as only a few strategic investors scan the market for potential targets and the sell-side industry focuses mostly on the larger companies in the economy.

Finally, crowdfunding is emerging as a new financing tool for start-ups. In a major legislative change, Turkey is looking to establish a legislative and regulatory framework for crowdfunding which will allow for the introduction of an equity-based model in addition to existing grant or reward-based systems. As a result, this type of financing should become more attractive. Secondary legislation to govern crowdfunding activities and, importantly, provide clear rules and mechanisms to protect investors, is currently being drafted by the Capital Markets Board of Turkey with assistance from the EBRD. A sound legal framework will contribute to the governance and regulation of crowdfunding activities in Turkey, allowing it to act as an alternative funding source for start-ups, SMEs and unlisted companies. However, the appetite of investors in the VC and start-up space overall may be subdued in the future by a more difficult macroeconomic environment.

Financial literacy

Entrepreneurs in Turkey can access training for financial literacy through dedicated agencies – KOSGEB being one of them. Notably, KOSGEB runs an online platform for training called SME Campus,[20] which also covers financial education. Rather than being of a general nature, these courses are tailored to the needs of businesses, something rare in the region, and contributing to Turkey's improved scores on this sub-dimension. However, evaluations of the population's financial literacy have all been carried out by outside organisations, such as Standard & Poor and the OECD, and the extent to which these are taken into account in policy making is unclear. In addition, financial education is not mandatory in the school curriculum.

The way forward for Dimension 6

Turkey could build on its strong performance in ensuring SMEs have access to finance with the following recommendations:

- **Strengthen the legal framework for secured creditors** to increase predictability and effectiveness. This includes the enforcement mechanism, which appears to be inflexible and slow. The introduction of out-of-court restructuring could help ease the pressure on courts while providing a more practical and fast-track solution for businesses and banks. In addition, further reforms to the secured transactions framework could improve legal certainty and flexibility, for example by clarifying the coverage of the assignment of receivables and by introducing concepts such as a floating charge or a security trustee.
- **Foster the availability of long-term financing.** While banks have generally expanded their products to SMEs with the support of government subsidies and credit guarantees, loans often cover only the short to medium term. Access to long-term funding remains challenging for SMEs and steps should be taken to foster an environment that is conducive to banks providing longer tenors.
- **Expand the coverage of the credit bureau (KKB).** Collecting information from a broader range of sources, such as retailers and utility companies, could help clients that have not had a previous bank loan build their credit history.

Standards and technical regulations (Dimension 7)

With an overall score of 4.78 (Table 19.12), Turkey remains the regional leader in this policy dimension, alongside Serbia. Since the last assessment, Turkey has made further progress in the areas of standardisation and metrology, and it stands out among its peers for providing financial support to SMEs to implement standards and for SME participation in standardisation.

Table 19.12. Scores for Dimension 7: Standards and technical regulations

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures		5.00	3.12
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	5.00	3.87
		Standardisation	4.75	3.97
		Accreditation	5.00	4.53
		Conformity assessment	4.80	3.65
		Metrology	5.00	4.47
		Market surveillance	5.00	4.43
		Weighted average	**4.93**	**4.15**
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	4.33	4.24
		SME participation in developing standards	3.50	2.57
		Financial support to SMEs	3.80	2.39
		Weighted average	**3.88**	**3.07**
Turkey's overall score for Dimension 7			**4.78**	**3.83**

State of play and key developments

Overall co-ordination and general measures

The Directorate-General for Product Safety and Inspection within the Ministry of Trade is the government body designated to co-ordinate overall quality infrastructure policy. The National Action Plan for the EU Accession (2016-2019) represents the overarching policy document guiding the transposition of the EU *acquis* in this area.

The Ministry of Trade hosts a website that provides information on technical regulations and barriers to trade. It contains information on CE (*Conformité Européenne*) marking, newly adopted technical regulations in the EU and international markets for each product group. The ministry has also established a single point of contact for providing guidance, practical information and assistance on all aspects of exporting to the EU Single Market. This contact point in Turkey allows exporters to consult the Ministry of Trade experts by phone, on line and via a mobile phone application. It also allows them to find the pertinent forms for exports and to reach Turkey's trade representatives abroad.

Harmonisation with the EU acquis

All quality infrastructure institutions are operational, adequately staffed and actively co-operate with European and international institutions. Following the Customs Union agreement with the EU that came into effect in 1995, Turkey has made progress in aligning its regulations with the EU *acquis* on the free movement of goods.

As of August 2018, Turkey had adopted a total of 23 662 European standards as national ones. It has harmonised around 98% of the standards developed by the European Committee for Standardization (CEN) and 94% of those of the European Committee for Electrotechnical Standardization (CENELEC). The new National Standardisation Strategy and Action Plan (2017-2020) was co-ordinated by the Ministry of Industry and Technology. The action plan consists of four targets to improve the standardisation system: 1) strengthening the standardisation infrastructure; 2) ensuring the effective participation of all relevant stakeholders in the standardisation process and increasing the use of the standard; 3) increasing participation in the global arena; and 4) preparing specific standards for products using new technology and improving work safety guidelines. The national standards body, the Turkish Standards Institute (TSE), is fully operational, and 62 of its 1 658 employees are tasked with preparing standards. The TSE also performs conformity assessments that serve to partially finance its standardisation activities. Currently, it is the only national standards body in the WBT region that does not rely on public funding. In 2018, a number of articles in the standardisation law were revised. The TSE is a full member of the CEN/CENELEC and the European Telecommunications Standards Institute. It is also a member body of the International Organization for Standardization and a full member of the International Electrotechnical Commission.

To make Turkey's participation in international standards organisations more inclusive, the TSE has established 129 national mirror technical committees. Based on voluntary membership, these committees help to formulate Turkey's position in developing international standards. The TSE's activities in education about standardisation stand out in the WBT region. Its education department organises target-group specific activities to address current and future stakeholders and raise the general awareness of standards and standardisation. These include co-operation with four universities, lectures in high schools and quarterly child-friendly cartoons to introduce them to the world of standards and standardisation in a playful way.

The national Turkish Accreditation Agency (TURKAK) is fully operational and currently employs 150 personnel. Like the TSE, it relies completely on its own revenues. There are currently 1 580 accredited conformity assessment bodies (CABs) in Turkey, and they are easily accessible via the TURKAK website.[21] Thanks to the Customs Union, 49 of Turkey's CABs have obtained notified body status in the European Union's New Approach Notified and Designated Organisations information system.[22] This represents a significant increase from the 30 notified CABs in 2016. TURKAK's advisory board, consisting of 92 government and non-government members, is designated to monitor and evaluate TURKAK activities and propose measures for improvement. TURKAK is a full member of the European co-operation for Accreditation (EA) and a signatory to the EA Multilateral Agreement (EA MLA), covering the greatest number of accreditation scopes in the WBT region;[23] only the scope of validation and verification now remains. It is also a full member of the International Laboratory Accreditation Co-operation (ILAC), and is also an ILAC Mutual Recognition Agreement (EA MRA) signatory and a member of the International Accreditation Forum. These recognition agreements allow products and services to be accepted across national borders without the need for additional conformity assessment procedures in the export markets, thereby facilitating access to new markets for SMEs and removing technical barriers to trade.

TÜBİTAK National Metrology Institute (TÜBİTAK UME) is responsible for metrology in Turkey. With 281 employees in 2017 (compared to 254 the year before), it has increased the number of national and international measurement comparisons as well as the types of calibration and tests. TÜBİTAK UME is an associate member of the European Co-operation of Legal Metrology and a full member of the European Association of National Metrology Institutes. It is also one of the founder members of the International Bureau of Weights and Measures (BIPM) and a member of the International Organisation of Legal Metrology. Since 2018, TÜBİTAK UME and the BIPM have been running a joint training initiative that gives opportunities to scientific and technical staff from BIPM member states or associates to conduct research for a period of one to three months in TÜBİTAK UME's laboratories. The initiative, which aims to support emerging metrology systems, is due to continue until 2019. To further its network of international co-operation, TÜBİTAK UME also signed a total of 34 memorandums of understanding (MoUs) with national metrology institutes. In 2017, it signed an MoU with the Institute of Metrology of Bosnia and Herzegovina for the purpose of initiating co-operation between the two institutions in scientific and legal metrology. The co-operation includes developing legal metrology services in the areas of agriculture, environment and medical devices in line with the EU legislation, as well as joint research projects.

Market surveillance (MS) activities in Turkey are conducted by several ministries, with the Ministry of Trade assigned as the co-ordinating body. Co-ordination is envisaged through two mechanisms: the Market Surveillance Co-ordination Board and the Market Surveillance and Product Safety Assessment Board. According to the 2017 annual report, overall spending on market surveillance fell by 1% in 2017; however, this followed a 30% increase in 2016 (EC, 2018[20]). Although the number of inspectors increased by 4.1% in 2017, this did not lead to an increase in the number of audited products, which fell by 24% in the same year. Inspections carried out by market surveillance authorities detected 47% fewer non-compliant or unsafe products in 2017, mainly reflecting the lower number of inspections. Turkey submits its annual market surveillance programme to the European Commission. As a candidate economy, Turkey does not participate in the EU Rapid Alert System (RAPEX), but the necessary administrative and technical infrastructure has been established through the notification system for dangerous products. The Ministry of Trade serves as the national contact point for all market surveillance authorities and a national MS database is in place to collect information about unsafe and non-compliant products in the Turkish market.

SME access to standardisation

The TSE provides monthly journals, both on line and as hard copies, to raise awareness about standards and standardisation. It also organises training events on implementing standards. However, practical guides and case studies on the benefits of standardisation are not available on the TSE website. Direct dialogue between the TSE and SMEs is also rather sporadic and limited.

Turkey envisages a number of concrete measures to improve SME access to standardisation in the new National Standardisation Strategy and Action Plan (2017-2020). The following actions are planned to ensure the effective participation of all relevant stakeholders in the standardisation process and to increase the use of standards,: 1) preparing a dictionary of standardisation terminology; 2) establishing a reward system for contributions to standardisation; 3) evaluating and monitoring the work of technical committees; 4) preparing promotional materials on the benefits of using standards; and 5) organising seminars and workshops. In addition, the TSE signed a co-operation protocol with the Union of Chambers and Commodity Exchanges of Turkey on organising regular sector-specific meetings that aim to increase SME involvement in individual sectors in the technical committees. Moreover, a new project also plans to modernise the TSE's technical infrastructure to enable remote participation in technical committee meetings.

In terms of financial support, Turkey offers standards at reduced prices for SMEs. Under its General Support programme, KOSGEB provides co-financing support for implementing product standards and specific management system standards. The support programme also includes reimbursing the costs of certification, test analysis and calibration. In 2017, 1 213 SMEs benefitted from the programme, and a total of 7 829 have benefitted since 2010. While reimbursement rates range from 50% to 70% of the incurred cost (depending on the region where the SME is registered), conformity assessment costs are fully reimbursed. The upper support limit of the programme is set at TRY 30 000 (about EUR 5 400).

The way forward for Dimension 7

Turkey has the most advanced quality infrastructure system in the WBT region. However, it could consider the following recommendations for further improvements:

- **Streamline education on standardisation in national curricula** as a starting point for raising awareness of standards and standardisation. Current practice in the WBT region involves fragmented activities that are not guided by a clear strategy. While Turkey is the only exception, it could improve its standardisation education further by embedding standardisation topics into relevant courses and academic programmes at secondary and tertiary levels. Co-operation among national standardisation bodies and academic institutions needs to facilitate the exchange of experience and expertise, including teacher training programmes. Co-operation could also extend to organising practical classes to improve the skills required in standardisation processes.

Enterprise skills (Dimension 8a)

Turkey, together with Serbia, is the top performer on enterprise skills for policy implementation, with a score of 3.54 (Table 19.13), and ranks second after Serbia in the dimension overall with a score of 3.95.

Table 19.13. Scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	Turkey	WBT average
Dimension 8a: Enterprise skills	Planning and design	3.33	3.38
	Implementation	4.06	2.83
	Monitoring and evaluation	3.00	2.29
	Weighted average	**3.54**	**2.87**
Turkey's overall score for Dimension 8a		**3.54**	**2.87**

State of play and key developments

Turkey has solid institutional capacity for providing SME support due to its specialist government agency dedicated to entrepreneurship support, KOSGEB, which oversees, initiates and leads the whole range of SME skills development programmes.

Turkey addresses the issue of skills intelligence in a multi-faceted way, and the framework is based on involving the key agencies and on regular data collection. During the assessment period, the institutional framework for entrepreneurship support was strengthened by the establishment of two new departments under the Directorate General for R&D Incentives. The recently reorganised Ministry of Industry and Technology now hosts the Department of Science, Technology and Industry Education, and the Department of the 4th Industrial Revolution. The first is responsible for identifying existing skills and companies' training needs, and developing new training and support services in this area based on identified needs (e.g. project management, R&D, technology and innovation management, and information technologies management). These benefit from KOSGEB support. The latter department is in charge of digital transformation in industry in response to the goals of the 4th Industrial Revolution. It focuses on enhancing SMEs' digital skills, including taking short-term, mid-term and long-term actions to strengthen the infrastructure and processes for education, training and data communication; developing technology and innovation infrastructure; encouraging national technology suppliers; supporting the digital transformation of SMEs through the production value chain, and so on. These latest developments demonstrate an overall stronger focus on skills for SMEs and, in particular, on digital skills and competences in the SME policy support agenda.

Comprehensive data are collected on the supply of training services by the key providers (e.g. KOSGEB and TÜBİTAK). Participant satisfaction data are also gathered – for example, KOSGEB evaluates training quality through participant evaluation forms; this information is then used to inform the design and improvement of new training programmes for SMEs.

The National SME Strategy and Action Plan 2015-2018 specifically reinforces the importance of labour market demand analysis, including SME skills intelligence, for the design of training programmes. İŞKUR's provincial branches, the Vocational Education Board and Sector Committees have an important role in the analysis of SMEs' training in Turkey. The Ministry of Labour and Social Services and Family is working on the Adult Skills Strategy document, with the participation of different institutions. Adult skills were assessed recently under the Programme for the International Assessment of Adult Competencies (PIAAC), with the report was published in June 2016. While not addressing specific SME skills directly, the report was an important part of the skills intelligence framework. Overall, a large volume of data is regularly collected, identifying great progress in the use of skills intelligence analysis for ensuring the quality and relevance of training supply. It is also important to mention that individual level SME training data are collected in a format disaggregated by the sex of participants, providing additional value for designing gender sensitive support programmes.

SME training programmes are numerous and diverse enough to cover different categories of entrepreneurs and support different phases of enterprise development. Training programmes are organised by public organisations (KOSGEB, İŞKUR, regional development agencies, etc), NGOs (chamber of commerce and trades, Confederation of Turkish Tradesmen and Craftsmen or TESK, etc.), incubation centres, organised industrial zones, and so on. KOSGEB supports an online training platform (http://kobikampus.kosgeb.gov.tr) offering 35 training programmes to SMEs for free. Along with general start-up training programmes, the government supports pre-start-up entrepreneurship training and mentorship services provided by the Turkish Employment Agency to increase employment and create new jobs. There are specialised start-up programmes for young entrepreneurs (e.g. TÜBİTAK's Individual Young Entrepreneurs Support), and for women entrepreneurs (e.g. TESK in co-operation with KOSGEB). Programmes supporting green skills and the circular economy are under the special attention of the government in the context of the National Waste Management and Action Plan 2016-2023 prepared by the Ministry of Environment and Urbanisation, and under the Turkey Energy Efficiency Support for SMEs programme implemented by KOSGEB.

Growth and internationalisation of SMEs remain areas of priority support. A good example is TÜBITAK’s technology-based entrepreneurship programme, called Individual Young Enterprise (BIGG), that includes providing mentoring, consulting and training services to entrepreneurs with the potential to go international. Internationalisation is also part of KOSGEB’s General Support Programme. This includes the International Incubation Centre and Acceleration Support Programme to support the foundation of incubation centres and the participation of enterprises in acceleration programmes. Its specific goals include publicising technological products and the R&D activities conducted in the economy to the international market, increasing exports, and ensuring that domestic technology-intensive start-up enterprises take their place among the developed entrepreneurship ecosystem. The Supporting the Development of International Competitiveness programme run by DG Exports covers promotion, training, market analysis, study visits and trade missions and other internationalisation-related activities.

SME growth and internationalisation will continue to be priorities as Turkey moves forward with adapting the smart specialisation[24] approach into the results-oriented programmes which all regions must develop from 2019 onwards. For more information on support for SME internationalisation, please see Section Operational environment for SMEs (Dimension 4).

The way forward for Dimension 8a

The Turkish government has further improved its targeting of SME training programmes, which are now specifically dedicated to different categories of SMEs and individual entrepreneurs. Institutional implementation structures are in place and there is major investment in meeting tomorrow’s challenges for the SME sector in terms of skills and competences, including innovation and R&D capacity of entrepreneurial human capital, digital skills and digital market support systems, internationalisation, support to value chains, etc. Training needs analysis in the SME sector has also received new impetus during this assessment period. The government might now consider consolidating its efforts in some areas where progress has been more modest:

- **Improve co-ordination in the supply of SME skills training**. In the area of SME skills, more effort could be made to analyse the current supply of training by type of demand and to consolidate the training offer by linking different suppliers and programmes. For example, in the area of SME internationalisation, a window of opportunity is open to make the programmes more comprehensive, and supply more effective and efficient, by improving co-ordination among providers and support opportunities.
- **Introduce targeted, cross-sectoral evaluation of short- and medium-term results and the long-term impact of SME skills' support policies and programmes.** System- and programme-level evaluation of measures dedicated to SME skills' development, including the impact of government investment and the quality of statistical evidence, need to be the government's focus in the immediate future.
- **Co-ordinate efforts by government and policy partners to exchange good practice on SME skills development**. More could be achieved to highlight good practices in SME training and apply good-practice approaches so as to enhance the quality of policies and improve the quality of training.

Innovation policy for SMEs (Dimension 8b)

Turkey is the top performer in the WBT region for its design and implementation of innovation policy for SMEs. With a score of 4.10 (Table 19.14), Turkey scores close to OECD best practice (5) and significantly higher than the next best WBT economies – North Macedonia (3.35) and Serbia (3.33). However, Turkey has stagnated since the last assessment, when it scored 4.14 on innovation policy (Small Business Act scores for Turkey (2016 and 2019)).

Table 19.14. Scores for Dimension 8b: Innovation policy for SMEs

<table>
<tr><th>Dimension</th><th>Sub-dimension</th><th>Thematic block</th><th>Turkey</th><th>WBT average</th></tr>
<tr><td rowspan="13">Dimension 8b: Innovation policy for SMEs</td><td rowspan="4">Sub-dimension 8b.1: Policy framework for innovation</td><td>Strategic approach</td><td>4.60</td><td>3.46</td></tr>
<tr><td>Co-ordination of innovation policy</td><td>5.00</td><td>2.97</td></tr>
<tr><td>Implementation of innovation policy</td><td>3.57</td><td>3.04</td></tr>
<tr><td>Weighted average</td><td>4.17</td><td>3.15</td></tr>
<tr><td rowspan="3">Sub-dimension 8b.2: Government institutional support services for innovative SMEs</td><td>Incubators and accelerators</td><td>4.43</td><td>2.99</td></tr>
<tr><td>Technology extension services for established SMEs</td><td>3.00</td><td>1.74</td></tr>
<tr><td>Weighted average</td><td>3.86</td><td>2.49</td></tr>
<tr><td rowspan="3">Sub-dimension 8b.3: Government financial support services for innovative SMEs</td><td>Direct financial support</td><td>4.80</td><td>3.76</td></tr>
<tr><td>Indirect financial support</td><td>3.44</td><td>1.38</td></tr>
<tr><td>Weighted average</td><td>4.26</td><td>2.81</td></tr>
<tr><td rowspan="4">Sub-dimension 8b.4: SME and research institution collaboration and technology transfer</td><td>Innovation voucher schemes and co-operative grants</td><td>3.00</td><td>2.52</td></tr>
<tr><td>Institutional infrastructure for industry-academia co-operation</td><td>4.60</td><td>2.72</td></tr>
<tr><td>Intellectual property rights</td><td>4.50</td><td>3.00</td></tr>
<tr><td>Weighted average</td><td>3.94</td><td>2.70</td></tr>
<tr><td colspan="3">Turkey's overall score for Dimension 8b</td><td>4.08</td><td>2.86</td></tr>
</table>

State of play and key developments

Policy framework for innovation

A number of strategic documents recognise the importance of innovation policy in Turkey, including the current SME Strategy 2015-2018 and the Tenth Development Plan 2014-2018. A new development plan is being drafted and a national Science and Technology Innovation (STI) Strategy 2017-2023 is also planned. The Supreme Council for Science and Technology co-ordinates innovation policy. The council is preparing a report on the implementation of the previous STI strategy, which ended in 2016. There are two relevant implementing agencies – TÜBİTAK and KOSGEB – both running a number of programmes to support SME innovation. The Directorate General for Industry and Productivity within the Ministry of Industry and Technology conducts regular independent evaluations of existing programmes, including those by TÜBİTAK and KOSGEB. The evaluation covers selected programmes, not all of them systematically. KOSGEB focuses entirely on enterprise support programmes whereas TÜBİTAK supports R&D activities, but companies are also eligible to apply for their grants.

Government institutional support services for innovative SMEs

Business incubation in Turkey is supported through a number of government programmes. Since the late 1990s, KOSGEB has established more than 20 technology development centres (TEKMERs) in co-operation with universities that act as incubators, providing physical space and also advisory services. However, TEKMERs are currently being restructured, and many were not operating at the time of writing. There are no government programmes to support private sector incubators, but SMEs in these incubators are individually eligible for support from TÜBİTAK and KOSGEB.

KOSGEB finances office space, staff and acceleration services for two international incubators recently established in the United States. Company owners have to be Turkish citizens to reside and qualify for support in these incubators, but this instrument is also expected to attract international partners, based on similar programmes run by Singapore and Malaysia.

The BIGG acceleration programme has been supported by TÜBİTAK since 2012. So far almost 1 000 companies have been established through this programme. In 2018, 30 agencies were given finance to support entrepreneurs with training, mentoring, incubation, networking and other types of support. In the second phase of the programme, entrepreneurs are provided with finance of up to TRY 150 000 (around EUR 27 000). In 2018, there were 3 323 applicants for the programmes and 1 438 received support in the first phase. Of these, 146 were selected for financing in the second phase.

Technology extension services in Turkey are offered either by technology park management companies or through technology transfer offices. Of 81 technology development zones (TDZs) in 54 provinces, 21 are under construction and 60 are now operating. These host more than 5 000 innovative start-ups and companies, who are provided with incubation services (under Law No. 4691, Law on Technology Development Zones) by the Ministry of Industry and Technology as well as by the TDZ managing companies. SMEs can receive funding for these services through KOSGEB's R&D, Innovation and Industrial Application Support Programme.

In TDZs, the number of companies at the incubation phase has to be at least 10% of the total number hosted. Companies under incubation receive a 50% reduction in rent, and those supported by TÜBİTAK or KOSGEB programmes receive an additional 25% reduction.

Government financial support services for innovative SMEs

At the national level, both TÜBİTAK and KOSGEB offer financial support to private sector research, development and innovation (RDI) activities through the R&D and Innovation Support Programme and the R&D Start-up Funding Programme for SMEs. There are also development agencies at NUTS-II level which design and implement financial support programmes for innovative SMEs according to regional needs.

Depending on the programme, companies can receive anywhere between EUR 100 000 to EUR 300 000 per project, depending on the stage of innovation development. In all the programmes at least 25% of the total budget is co-financed by beneficiaries. Projects are selected through competitive calls for proposals, and proposals are evaluated and chosen by selection committees which include agency, private sector and academic representatives.

Companies that receive public support for RDI activities are eligible for a number of tax incentives, including corporate income and personal income tax deductions. According to the Law on Technology Development Zones, companies based in TDZs are exempt from corporate income tax on the profits resulting from their software development and R&D activities, and the R&D personnel working in those companies are exempt from all income taxes until the end of 2023.

The Programme for Supporting the Research and Development Activities Law states that half of the insurance premium for R&D staff is to be covered by the Ministry of Treasury and Finance for five years. Finally, all innovation and R&D expenditures made by beneficiaries are subject to discounted corporate tax in technology centres, R&D centres, public institutions and bodies, R&D and innovation projects supported by foundations established by law or international funds, and in pre-competition co-operation projects. The wages of R&D and design personnel in these organisations are partially exempt from income tax – 90% of the income for those with a PhD degree and 80% for others.

SME innovation is also encouraged through public procurement. Since 2005, in order to foster R&D-based procurement methods, Turkey has run the Public Institutions Research and Development Projects Support Programme. The programme has been designed to fulfil the R&D needs of public institutions via dedicated calls for projects by universities, industry and public research institutes. In 2013, public procurement was also used to stimulate innovation in SMEs under the Programme and Action Plan for Technology Development and Domestic Production through Public Procurement prepared under the Tenth Development Plan 2014-2018. However, public procurement procedures under this programme are not entirely compliant with the EU *acquis*, since they give preference to domestic operators (see Section Operational environment for SMEs (Dimension 4) on public procurement).

TÜBİTAK also invites public institutions to determine needs that could be addressed by R&D projects, and Technological Product Certificates are given to innovative companies that participate in public tenders. Although not providing any direct advantages to SMEs in public procurement, these certificates can be used as a substitute for work completion certificates required in tenders.

Finally, there are no impact assessments, evaluation studies or studies of the state of play for any type of procurement for innovation.

SME and research institution collaboration and technology transfer

During the reference period, the Public-University-Industry Co-operation (PUI) Strategy and Action Plan (2015-2018) continued to be carried out by the Ministry of Industry and Technology in order to improve synergy and collaboration among the stakeholders in the R&D and innovation ecosystem.[25] Under this strategy, an online portal (www.kusip.gov.tr) was established in 2016 to raise awareness of public funds and to enhance interaction between enterprises and academia. In 2017, academic staff were granted the right to establish companies and engage in the commercial activities of companies established already as part of the TDZs. In the long term, this may facilitate collaboration, and hence technology transfer, between the private sector and academia. There are no innovation voucher schemes for SMEs in Turkey, but business-academia collaboration is funded through TÜBİTAK's University-Industry Collaboration Support Programme. Business funding for R&D performed by higher education institutions is one indication of R&D collaboration between these two sectors. In 2015, business funded about 15% of higher education R&D in Turkey, the highest share among OECD countries, demonstrating a strong collaboration between the two sectors (OECD, 2017[44]). This collaboration is further strengthened through the strong network of technology parks and technology transfer offices that are located across the countries, described above.

The way forward for Dimension 8b

Turkey has increased government R&D expenditure by 80% since 2008 (OECD, 2017[44]). The economy's efforts to boost RDI are visible in a number of performance indicators that show an increase in publications, international co-inventions and foreign value-added content in exports. Nonetheless, Turkey is still a moderate innovator compared to the performance of EU Member States (EC, 2018[45]).

Going forward, Turkey needs to address the following challenges:

- **Scale up financial support for private sector R&D activities.** Despite the large increase in government R&D expenditure in the past decade in Turkey, private sector R&D funded by the government amounts to only 0.07% of GDP, which is rather low compared to the average for OECD economies of 0.1% (OECD, 2017[46]). The government could benefit from revisiting the existing mix of direct and indirect funding and evaluating existing programmes. This would ensure it has an appropriate mix of effective policies prior to scaling up its efforts to boost innovation in SMEs.
- **Refocus the location of TEKMERs.** In the last decade, Turkey has developed a strong network of incubators and accelerators providing financial support and various mentorship to entrepreneurs. TEKMERs' catalytic role cannot be overlooked. Currently, 28 TEKMERs across the country are being restructured into incubation centres. In this process, KOSGEB is encouraged to gradually phase out its direct involvement in establishing incubators in those provinces like Istanbul and Ankara with an already mature innovation ecosystem. Instead, it might scale up its support in the least developed regions of Turkey where innovation infrastructure is still in its infancy.
- **Encourage technology transfer and commercialisation.** Turkey has fewer triadic patents[26] per million inhabitants than the majority of OECD economies (OECD, 2018[47]). There are currently no financing instruments available to boost research institutions' patenting activities or to encourage technology commercialisation by guaranteeing researchers a certain percent of royalties or similar incentives. Neither are there tax incentives for intellectual property revenues. Turkey could benefit from considering one of these instruments, or a mix, to boost patenting activity and to further commercialise technologies. Even though technology transfer offices are widely available throughout the economy, their capacities and effectiveness could be evaluated to ensure they are providing the right set of services to both researchers and companies.

SMEs in a green economy (Dimension 9)

With a score of 4.12, Turkey is the regional leader in this dimension (Table 19.15). Its performance has improved since the previous cycle (3.72 in 2016; see Figure 19.1), indicating the government's continuous efforts in promoting and supporting better environmental performance among SMEs.

Table 19.15. Scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	4.87	3.81
		Implementation	3.80	2.56
		Monitoring and evaluation	4.00	2.12
		Weighted average	**4.16**	**2.85**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	3.67	2.32
		Implementation	4.75	2.76
		Monitoring and evaluation	3.00	1.72
		Weighted average	**4.08**	**2.42**
Turkey's overall score for Dimension 9			**4.12**	**2.61**

State of play and key developments

Framework for environmental policies targeting SMEs

SME greening in Turkey is covered in a number of national strategic documents: the SME Strategy and Action Plan (2015-2018), Tenth Development Plan (2014-2018), National Climate Change Action Plan (2011-2023), National Energy Efficiency Action Plan (2017-2023), Turkish Industrial Strategic Document (2015-2018), Turkish Entrepreneurship Strategy (2015-2018), and Productivity Strategy (2015-2018).

In the SME strategy the key greening focus is promoting eco-efficient products, services and processes, as well as eco-innovation. Under Target 2 – Supporting innovative SMEs on product, service and business model innovation – the SME strategy sets out activities to support the commercialisation of SME projects in the areas of advanced and environmental technologies.

As in the previous assessment cycle, the national SME agency KOSGEB is the main body implementing SME greening measures. Through its General Support Programme, it supports SME greening projects both financially and non-financially, with the main emphasis on energy efficiency. SMEs are provided with a variety of support to improve energy efficiency, from guiding documents and online advice to direct financial assistance as part of the KOSGEB support programme. An additional measure for enhancing energy efficiency in Turkish SMEs is increasing the quality and quantity of energy efficiency consultancy companies through government subsidies to consultancy services in energy efficiency for SMEs.

All the planned activities are being implemented, the budget has been mobilised and funds are mainly provided from the government budget. Monitoring is also conducted regularly, both of the achievement of strategic objectives and the efficiency of the implementation body. An impact analysis of the SME greening policies and programmes, however, has not been done yet.

Energy efficiency is also at the core of other programmes and projects. Energy management units (EMUs) have been established in Turkey's Organised Industrial Zones with the aim of providing direct mentoring support to interested companies operating in the zones. Information dissemination and promotional activities are also planned as core EMU activities (Box 19.7).

Box 19.7. Enhancing SME energy efficiency in Turkey: Creating energy management units in special industrial zones

As part of the Energy Efficient Industry Project, the Turkish government has formed energy management units in special economic zones (known As Organised Industrial Zones or OIZs). These units were established to provide services to industrial enterprises with an annual energy consumption of below 1 000 tonnes of oil (as per the Energy Efficiency Law No. 5627).

The project is implemented by the Energy Efficiency Association in partnership with the Ministry of Energy and Natural Resources of Turkey and the Organised Industrial Zones Higher Institution. The project aims to enhance energy efficiency in SMEs in the OIZs by raising awareness, promoting a culture of efficiency among staff and introducing small-scale changes in the industry (reducing electricity/water consumption and achieving savings through simple modifications of certain parts of the manufacturing process). To develop the expertise to establish energy management units, the government has co-operated with the local office of the Japan International Cooperation Agency and other partners.

For the last couple of years, energy efficiency has become more pronounced in Turkey; a growing number of SMEs are benefitting from the programmes and savings are being achieved.

Sources: Bütüner, H. (2014[48]), *Organised Industrial Zones in Turkey - SWOT analysis*, www.linkedin.com/pulse/20141020214614-114102137-organized-industrial-zones-in-turkey-swot; KOSGEB (2015[49]), *SME Strategy and Action Plan 2015-2018*, *Energy Efficient Industry*, http://enerjiverimlisanayi.com/en/icerik/projemiz/41; Invest in Turkey (2018[50]), *Investment Zones*, www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/SpecialInvestmentZones.aspx

Furthermore, training and mentoring are offered by the Global Cleantech Innovation Programme (GCIP) to young entrepreneurs and SMEs working in clean technologies (environment and energy). The GCIP is conducted by the United Nations Industrial Development Organization, the Global Environment Facility and TÜBİTAK, with the aim of developing an entrepreneurship ecosystem in the field of clean technologies. Since its establishment in 2014, the GCIP has offered training and mentoring to around 80 projects mainly in the areas of waste management, water efficiency and renewable energy.

The Turkish government regularly consults the private sector when developing environmental policies, SME greening strategies and action plans. The government also co-operates with business associations and local councils to deliver environmental guidance to SMEs. The Turkish Union of Chambers and Commodity Exchanges is one of the most active business associations, providing input to the development of environmental policies for SMEs. Due to the local character of the environmental projects KOSGEB implements, it systematically co-operates with local chambers of commerce and industry. NGOs and business associations are also present at the workshops, training courses and meetings organised as part of SME greening projects, often providing direct technical support along with KOSGEB experts.

Incentives and instruments for SME greening

One of the key goals of SME greening is to improve SMEs' energy efficiency. To this end, KOSGEB provides financial support to companies via different programmes. One of them – the Efficiency Increasing Programme – is run in co-operation with the Ministry of Energy and Natural Resources' Directorate, General Renewable Energy. Companies with energy consumption above a certain threshold can apply to the programme and their energy efficiency projects are supported by up to 30%, within a limit of TRY 1 million (around EUR 180 000). Another programme is the Voluntary Agreements, under which the government covers 20% of companies' energy costs, up to TRY 200 000 annually (around EUR 36 000), on the condition that they reduce their energy costs by 10% of their five-year consumption average. KOSGEB also provides financing for SME energy efficiency audits and for consultancy and training costs under the General Support Programme. Support covers 50%, 60% or 70% of the costs, depending on the region, up to TRY 75 000 (around EUR 13 500). KOSGEB also provides financing for energy efficiency projects under the SME Development Support Programme, which covers between 60% and 80% of project costs.

In the WBT region, Turkey stands out for its regulatory instruments for SME greening. These are performance standards – requirements for recycling material used for packaging. In 2017, the government introduced the Regulation on Packaging Waste Control, which stipulates what percentage of each material used by the manufacturer should be recycled: 54% of glass, plastic, metal and paper. Authorised organisations and municipalities collect and recycle the packaging waste. Companies should be a member of these authorised organisations and pay membership fees to reuse the recycled materials.

Government authorities in Turkey offer guidance to SMEs on complying with environmental regulations and carrying out green practices, mainly through dedicated websites and brochures. KOSGEB endeavours to achieve this under its General Support Programme, which also provides financial support to SMEs to acquire ISO 14001: it covers 50% of the cost of certificates (application and file examination, inspection and audit) and the test and analysis documents, up to USD 25 000 per document.

KOSGEB also audits firms to ensure they comply with the environmental procedures and rules specified for each sector according to risk level. It also promotes the use of environmental management systems in SMEs through environmental audits. While a ISO 14001 certificate is not mandatory, if a company has one it is highly likely to pass the audit process.

Chambers and sectoral associations (e.g. the Istanbul Chamber of Industry) organise awards to recognise good environmental practices. KOSGEB awards the Environmentally Friendly SME of the Year as one of its annual entrepreneurship awards.

Energy efficiency is also supported by donors and banks through the Turkish Small and Mid-Size Sustainable Energy Financing Facilities (TurSEFF and MidSEFF) launched by the EBRD, with support from the EIB in 2010 and the European Commission in 2011. The facilities provide loans to private sector borrowers through several Turkish banks for small-scale and mid-size investments in SME energy efficiency, renewable energy, waste-to-energy and industrial energy efficiency (TurSEFF, 2018[51]; MidSEFF, 2018[52]). By 2018, TurSEFF had supported over 1 000 projects, generating 502 MW of renewable energy. MidSEFF has helped to create 1 200 MW of renewable energy by financing 61 projects.

Finally, green public procurement policies are being introduced in Turkey by promoting goods and services with a minimum energy efficiency rating. However, this is still at an early stage.

The way forward for Dimension 9

Turkey has put great effort into promoting and supporting SME greening, putting a range of measures and actions in place. Going forward, Turkey should pay particular attention to the following points:

- **Ensure appropriate inter-organisational co-ordination** to avoid potential overlaps in certain areas and a lack of action in others. Given the abundance of policies and programmes on SME greening in Turkey, it is essential to ensure effective co-ordination among the various bodies implementing support programmes. This particularly applies to projects for enhancing energy efficiency, since a number of different bodies are responsible for these actions. The government is therefore advised to ensure effective collaboration among KOSGEB, the Ministry of Energy and Natural Resources and other ministries and bodies in charge of implementing SME greening measures in order to create synergies among them.
- **Start evaluating the effectiveness of SME greening policies on the ground.** SME greening measures are regularly monitored; KOSGEB produces annual reports on activities of both the SME Strategy and General Support Programme; but there has not yet been any impact analysis of the SME greening policies. Given the advanced stage of programmes and activities for SME greening in Turkey, it is now essential to assess the real impact of these initiatives to ensure their full effectiveness.

Internationalisation of SMEs (Dimension 10)

Turkey is the strongest performer of the WBT economies in providing support for internationalising SMEs. With a rise in its score from 3.73 in 2016 to 4.40 (Figure 19.1), Turkey remains the regional leader across the board, having sustained its support for export promotion and developed effective programmes to support integration into global value chains and uptake of e-commerce (Table 19.16).

According to TUIC data received for this assessment, the share of exports by SMEs in Turkey slightly deteriorated from 59.2% to 56.2% between 2013 and 2017. At the same time, the total value of SME exports increased by 15.4% between 2013 and 2017. A separate study by the OECD found that Turkey still lags behind most comparable countries in terms of exported value added per capita and that export market shares, especially when measured in value added terms, have not grown at the same rate as its strong overall economic performance (Ziemann and Guérard, 2017[53]).

The cost of border compliance for exports stood at USD 376 in 2017, significantly above both OECD (USD 164) and EU averages (USD 85) (World Bank, 2018[54]). Likewise, the border compliance cost for imports, at USD 655, dwarfs the averages of the OECD (USD 137) and EU (USD 29) (World Bank, 2018[54]). These figures have remained constant over the assessed period.

Table 19.16. Scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	5.00	4.86
		Implementation	4.76	4.24
		Monitoring and evaluation	3.43	3.01
		Weighted average	**4.57**	**4.18**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.60	3.58
		Implementation	4.71	3.08
		Monitoring and evaluation	2.33	1.76
		Weighted average	**4.20**	**2.97**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	5.00	3.45
		Implementation	4.50	2.26
		Monitoring and evaluation	3.50	1.36
		Weighted average	**4.45**	**2.44**
Turkey's overall score for Dimension 10			**4.40**	**3.43**

State of play and key developments

Export promotion

Turkey has several export promotion programmes as a result of numerous communiqués and parallel national strategies, with the Directorate General (DG) of Exports of the Ministry of Trade running 14 programmes. Export promotion activities are covered by the SME Strategy and Action Plan 2015-2018; the Export Strategy 2023; and the Industrial Strategy of 2015-2018, which also foresees financial support for export-oriented SMEs.

In 2018, the Ministry of Economy also launched the e-export strategy, which aims to increase exports through e-commerce (Ministry of Economy, 2018[55]).

In developing new legislation and programmes, formal consultation with the private sector is directed through exporters' unions, chambers of industry or the ministry. Informal consultation also takes place through DG Exports, which maintains close contact with SMEs and integrates their suggestions into programme designs and updates.

The Ministry of Trade is the primary government body responsible for export promotion, while KOSGEB, the Turkish Exporters Assembly, regional exporters and Türk Eximbank also support export promotion in various capacities.[27]

Services offered by Turkey's export promotion programmes for SMEs include trade information and commercial intelligence, economy representation at major trade fairs, marketing support, product development, and training. KOSGEB provides support to SMEs in these areas through several programmes, namely its General Support Programme, the International Incubation Centre and Acceleration Support Programme. Under its General Support Programme, KOSGEB funds SMEs' international trips and promotional activities at a rate of 50-60% or up to TRY 10 000 (around EUR 1 800).[28] KOSGEB's International Incubation Centre and Acceleration Support Programme also supports SMEs in the form of financing office space abroad, staff, acceleration services and foreign business trips.[29]

Broadly, the Ministry of Trade classes export promotion programmes into three phases: preparation, marketing and branding. Programmes for the preparation phase, such as the Supporting the Development of International Competitiveness (UR-GE) programme, aim to enhance SMEs' capacity for better export performance.[30] Turkey supported around 185 projects under the UR-GE programmes between 2011 and 2016, in which the benefitting umbrella organisations each had around 15 companies.[31] During the assessed timeframe, this scheme was amended by adopting a broader definition of the activities that it could support (EC, 2017[27]). Other DG Exports programmes include Participation in Trade Fairs Organised Abroad, Market Research and Access to Markets, International Branding and the TURQUALITY project, which particularly aims to promote the Made in Turkey label abroad. The budget for DG Exports totalled TRY 989.5 million (around EUR 238.4 million) in 2017.

The Ministry of Trade plans to establish 25 new export support offices across 16 provinces with proven export potential (Ministry of Trade, 2018[56]).[32] This initiative, if implemented, will significantly broaden support coverage and target export mobilisation through e-exports and e-commerce.

As for trade financing, Turkey's fully state-owned export credit agency, Türk Eximbank, offers credit lines, such as Export Preparation Credit for SMEs, which provide them with lower interest rates. Turkish SMEs can benefit from a broad range of products and services across three categories: short-term export credits, medium- to long-term export credits and credits for services earning foreign currency. SMEs involved in manufacturing and exporting can also apply for the Credit Guarantee Fund and obtain letters of intent and export credit insurance. Türk Eximbank provides financing on commercial terms and in accordance with the OECD Arrangement on Officially Supported Export Credits (Türk Eximbank, 2018[57]).

The World Bank granted Turkey USD 250 million through the Innovative Access to Finance project between 2014 and 2018, which offers access for SMEs and export-oriented enterprises to longer-term Islamic finance, and factoring for SMEs. This project is intermediated by the Industrial Development Bank of Turkey and participating banks and factoring companies (World Bank, 2014[58]).

The SME beneficiaries of the export promotion programmes of KOSGEB and Türk Eximbank are not made public. While DG Exports makes the list of beneficiary umbrella organisations public, it does not disclose the names of the individual SMEs benefitting.

Export promotion programme activities are monitored through the Ministry of Trade's annual activity reports, while financial auditing is done by DG State Aid (T.C. Sayıştay Başkanlığı, 2018[59]). However, there are no independent reviews of the export promotion programmes.

Meanwhile, despite the broad range of programmes and services available to SMEs in support of export promotion, SMEs cite a low awareness of available programmes and confusion regarding eligibility criteria due to frequent regulatory and legislative changes. To address this perception problem, Turkey developed the Nudge project in 2017 using behavioural economics in order to design policy mechanisms that will increase the uptake of its export promotion subsidies among SMEs (see Box 19.8).

Box 19.8. Nudge Turkey: Designing user-friendly policies for exporting SMEs through behavioural economics

Nudge Turkey was established in 2017 with funding from the British Embassy in Turkey. A Behavioural Insights Team from the United Kingdom provided consultancy support and Ernst & Young Turkey managed the implementation.

Challenges

The major goal of this project was to increase public support use, particularly by SMEs. A number of different programmes exist in Turkey that support firms to export. However, the analysis of Nudge Turkey, which is an official department within the Ministry of Trade, showed that only 86% of registered exporters which were eligible for at least one type of public support had not received any support. The median export value of those which did not receive a public support was below USD 30 000 in 2017, and the median number of employees was 8 in 2016, which indicates that public support are used by large companies which are familiar with the processes and have the necessary resources to manage the application process. Meanwhile SMEs, which need financial support the most, have remained largely unreached.

Scope

Nudge Turkey began with face-to-face interviews with exporters based in Ankara who had never received a public support, in order to find out why these firms had not applied. The results indicated that 73% had heard of at least one of the public supports, 77% did not know how to apply and 43% had heard positive feedback about the support. Most importantly, 62% believed that even if they applied, they would not receive the support.

For this last group, the reasons included being unable to complete the application process due to either complex procedures or insufficient resources, and concerns that the total subsidy budget may not be sufficient for all applications.

The project, in collaboration with the Behavioural Insights Team, designed an intervention to increase awareness of the available public support programmes and to encourage SMEs to apply. It aimed to address SMEs' cognitive biases when applying for the subsidies, indicated by their identified concerns and prejudices. A randomised contrail trial was carried out, and different e-mails containing behavioural messages were sent to 30 000 firms who did not apply to public support programme before. The preliminary results indicate that the messages, using behavioural economics principles, increased applications by more than 20% relative to the control group.

Nudge Turkey launched a new website (kolaydestek.gov.tr) in March 2018 to provide information to SMEs. It explains the application process using infographics with a few steps, rather than referring to sophisticated legislation; provides direct downloads of application documents, and gives direct contact details of experts for each public support programme. Finally, there are nine different animations, summarising the incentives, as well as a video that features the Minister of Trade addressing firms' concerns as identified through the interviews. Since the website's launch, more than 140 000 users have visited it.

Project completion and future initiatives

The team is currently seeking new intervention areas for better policies in Turkey by running randomised control trials. Nudge Turkey has published its first official guide in Turkish titled *Senin Kararın mı*? (Is it your Decision?) on behaviourally informed public policies.

Source: Based on information provided by the Ministry of Trade of Turkey.

Integration into global value chains

The Ministry of Trade directly supports SMEs' integration into global value chains (GVCs) through two primary initiatives, the Directive on Supporting Certificates of Market Access and the programme Supporting the Improvement of International Competitiveness, both managed by the Ministry of Trade and implemented by the Turkish Exporters' Assembly.

The Directive on Supporting Certificates of Market Access was widened over the assessed period to cover companies' expenses for participating in global value chains (EC, 2017[27]). Its targets are in line with the SME Strategy and the Tenth Development Plan.[33] With a budget of TRY 1.44 billion (around EUR 260 million) over 2018-2022, the Turkish Exporters Assembly, which implements the project, provides project-based financial support for SMEs' procurement of machinery, equipment, training, consultancy and software, customer visits and certification-test analysis, to a maximum of 50% of costs and USD 1 million per beneficiary. As this programme was only implemented in 2017, data on its results are not yet available. The companies which have qualified as beneficiaries of the programme will be audited annually by the Ministry of Trade in order to evaluate their performance. The results of this monitoring will not be made publicly available.

The UR-GE programme (Supporting the Development of International Competitiveness), also provides strong support for SME integration into GVCs, exemplified by the success of its footwear cluster support project. The strategic design and implementation of this programme, arranging training and advisory activities in line with needs analysis findings, led to a foreign trade surplus for the region's footwear sector. Meanwhile, KOSGEB indirectly contributes to these efforts through a wide range of supporting activities under the Enterprise Europe Network.[34]

SMEs are systematically informed about programme activities through ongoing seminars, while up-to-date information is disseminated through intermediaries such as chambers, cluster management teams and exporter unions. KOSGEB also offers a support line (via phone or Internet) that enterprises can contact to obtain detailed information and to voice opinions and suggestions.

The Supreme Court of Public Accounts reviews the programmes' expenditures on an annual basis, and their activities are monitored and published in publicly available annual reports. However, the SME beneficiaries of the programmes are not made public.

Alongside these ongoing programmes, KOSGEB's recently designed Internationalisation Support Programme specifically aims to support SME integration in global value chains by in various areas, from software and hardware; test, analysis and certification; and service procurement support, for instance at a rate of 75% and maximum value of TRY 300 000 (around EUR54 000) per beneficiary.[35]

Despite these efforts, Turkey's participation in global value chains remains below its potential. An OECD study found that this is due to "institutional features that hamper efficient allocation of capital and labour, obstacles inherent in bilateral trade agreements and entry regulations, underdeveloped human capital and insufficient investment in innovation, R&D and knowledge-based capital" (Ziemann and Guérard, 2017[53]).

Promoting the use of e-commerce

Individuals' use of e-commerce (as measured by online purchases in the last 12 months) in Turkey (25%) remained significantly below the EU average (60%) in 2018 (Eurostat, 2018[14]). Similarly, only 9% of Turkish SMEs sold online (at least 1% of turnover) in 2018, while on average 17% of SMEs did so in the EU (Eurostat, 2018[14]).[36] However, during this assessment period, Turkey took a more proactive approach and has introduced support for SMEs' uptake of e-commerce.

The Ministry of Trade's DG Exports provides ongoing support to SMEs through the Programme to Support Market Research and Market Entry, which is linked to the Tenth Development Plan and the SME Strategy and Action Plan. Under this programme, DG Exports sponsors 80% of their membership fees for e-commerce sites/portals for a period of three years. SMEs apply for membership through umbrella organisations (such as chambers of commerce, exporter unions), which then apply to the ministry on their behalf in groups of at least 250 member companies. The budget from government sources allocated to activities promoting e-exports is TRY 33.8 million (around EUR 6.1 million) between 2018 and 2022.

Government efforts aside, the Turkish Enterprise and Business Confederation has initiated a project called Digital Anatolia. It aims to enhance awareness of digital opportunities by promoting interaction between digitalisation professionals and SMEs through meetings across the economy (OECD, 2018[2]). The project, which broadly aims to stimulate digital transformation, could also have positive effects on SMEs' e-commerce uptake.

Legal frameworks for e-payments and consumer protection are in place, and efforts to increase the effectiveness of consumer protection in e-commerce have propelled Turkey to the forefront globally for generating trust in the digital environment. Turkey has championed clear and comprehensive regulations for online consumer protection, most notably through its presidency of the International Consumer Protection and Enforcement Network (ICPEN) in 2017-2018.[37]

Turkey's Ministry of Trade has developed a Trust Stamp in Electronic Commerce, which entered into force in 2017. Verified and audited e-commerce sites may display the mark if they meet criteria defined by the Communiqué on the Trust Stamp in E-Commerce, such as data protection; awareness of e-commerce and payment systems regulations; clear information about company operators; and effective communication methods for customer demands and complaints. Recently the Ministry of Trade and the Turkish Union of Chambers and Commodity Exchanges signed a protocol allowing the latter to provide the Trust Stamp to SMEs.

Turkey is also making headway in developing statistics on e-commerce. In the last quarter of 2017, the Ministry of Customs and Trade launched an e-commerce information platform to register and record all e-commerce activities in order to develop statistics.

The way forward for Dimension 10

Turkey can further improve its efforts to support the internationalisation of SMEs in the following ways:

- **Reform customs services by considering the needs of SMEs.** The cost and time involved for both exports and imports have remained stubbornly high during the assessment period. Burdensome customs requirements present challenges to trading internationally, especially to SMEs, and the situation is further exacerbated by the frequent legislative changes which Turkish SMEs cannot keep up with. Introducing information help desks and more training for customs brokerage firms may partially address SMEs' customs facilitation needs.
- **Improve the flow of information and increase awareness of support programmes** among SMEs, especially for export promotion. Turkey could consider consolidating its channels of communication with SMEs by using those already in place. Intermediaries, such as chambers of commerce and industry and cluster management teams, could play effective roles in these endeavours. Likewise, Turkey could also leverage its online platform to register and engage SMEs in e-commerce in a more targeted and informative manner.
- **Introduce better evaluation** through measures that also assess the impact and effectiveness of its programmes. In order to provide a measure of success, Turkey could consider introducing a customer relationship management system to get feedback from SMEs.

Conclusions

Turkey's efforts in drawing on a broad array of public policy tools to foster SMEs' competitiveness are commendable. No other economy in the region has such an extensive set of programmes and initiatives. But, before further scaling up support to SMEs, Turkey needs to undertake a comprehensive evaluation of its existing policy tools. This is needed to ensure that public resources are allocated to those programmes that address the most pressing needs and have the greatest impact.

The biggest challenge for Turkey is that the regulatory conditions needed for a level playing field for SMEs are still not entirely in place. Apart from the preparation process for national strategies, policy making does not usually engage a wide-ranging group of stakeholders, including SMEs. Legislation is adopted without giving much consideration to its potential effects on SMEs. Mainstreaming SMEs' needs in policy making should now be Turkey's main priority.

Notes

[1] Calculation made based on World Bank data for 2017.

[2] The WBT region refers to the six pre-accession Western Balkan economies (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) and Turkey. Unless otherwise specified, reference to the "region" in this publication implies these seven economies.

[3] The NUTS classification (Nomenclature of Territorial Units for Statistics) is a hierarchical system for dividing up the economic territory. For more information see Eurostat (2018[70]). The 12 NUTS I, 26 NUTS II and 81 NUTS III subdivisions of Turkey are officially refereed as regions, sub-regions and provinces respectively.

[4] In EU countries, SME envoys are appointed by the national government to report on the uptake of the SBA and to promote SMEs interests through government bodies. Such SME envoys do not exist in pre-accession countries.

[5] The Monitoring of Graduates of Vocational and Technical Secondary Education Institutions (E-Graduate) 2017 Report can be found at url: http://emezun.meb.gov.tr/document/2017Emezun%20Raporu.pdf

[6] According to an article published by INSOL Europe, 3 524 companies applied to postpone bankruptcy between 2009 and 2014. However, of the applicants who were granted a postponement, only 2% were subsequently able to recover from insolvency. The remaining 98% of postponement recipients were ultimately declared bankrupt, despite the court's postponement decision (Cetinkaya, 2016[71]).

[7] The seven years could comprise two years for judicial processes; a one-year postponement (initial court decision); and four years of extension (based on trustee reports).

[8] Law 7101.

[9] Statutory Decree No. 669, published on 31 July 2016.

[10] A debtor's estate is the property that creditors can take when the debtor is in bankruptcy.

[11] See www.resmigazete.gov.tr/eskiler/2016/09/20160903-2.htm.

[12] The Regulation on Business Licensing No. 2005/9207, issued in the Official Gazette of 8 October 2005.

[13] Institutions need to sign bilateral protocols among themselves to be able to share information. There is no centralised approach.

[14] According to Article 81 of the Municipal Revenues Law, licensing fees vary between TRY 0.1 and TRY 1 per square metre, according to the type of the business. The upper limit is TRY 5 000, even if its total area exceeds 5 000m^2.

[15] The cost recovery principle is defined as the method of recovering an expenditure which a business takes on. In other words, it is simply recovering the costs of any given expense.

[16] The "silence-is-consent" principle gives legislative protection to the applicant: if public authorities fail to answer a request within a prescribed timeframe, then "consent" to the request is automatically conferred.

[17] According to the Turkish Banking Association, business customers for mobile banking have grown by nearly 260% since December 2015, to reach nearly one million active business customers as of June 2018.

[18] EBRD calculations based on BDDK (Banking Regulation and Supervision Agency) statistics, as of June 2018.

[19] Two funds of funds were launched under the Turkish Investment Initiative: the Istanbul Venture Capital Initiative in 2007 and the Turkish Growth and Innovation Fund in 2016.

[20] See kobikampus.kosgeb.gov.tr.

[21] These include 853 testing laboratories, 127 calibration laboratories, 25 medical laboratories, 225 inspection bodies, 61 product certification bodies, 87 management system certification bodies, 206 certification bodies for individuals and 8 proficiency testing providers.

[22] Notification takes place when a member state informs the commission and the other member states that a body fulfilling the relevant requirements has been designated to carry out conformity assessment according to a directive.

[23] These include testing, calibration, inspection, product certification, management systems certification, certification of individuals and proficiency testing providers.

[24] Smart specialisation originated in the EU as a concept for stimulating innovation-driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services and, ultimately, economic growth. Human capital, knowledge dissemination and transfer, as well as support to entrepreneurship are all key elements in successful implementation of smart specialisation strategies. For more information, please see Chapter 12 on enterprise skills and Box 13.1 in Chapter 13 on innovation policy for SMEs.

[25] There are three essential pillars to the actions in the plan: 1) a working group of 96 PUI representatives (mostly academics) across Turkey, in which each member is responsible for the ecosystem in a city; 2) City PUI Planning and Improvement Councils, which consist of local authorities and are responsible for systematic co-ordination of PUI activities in cities; and 3) an online portal (www.kusip.gov.tr) dedicated to raising awareness of public funds and enhancing interaction among stakeholders.

[26] A triadic patent family is defined as a set of patents registered in various countries (i.e. patent offices) to protect the same invention. Triadic patent families are a set of patents filed at three of these major patent offices: the European Patent Office, the Japan Patent Office, and the United States Patent and Trademark Office (OECD, 2018[74]).

[27] The DG Exports of the Ministry of Trade has primary responsibility, while KOSGEB implements programmes which are SME-specific. The Turkish Exporters Assembly and Türk Eximbank also provide financial and technical support in export promotion.

[28] Recent amendments have broadened the opportunities for funding in this scope, as subsidies for the organisation of sectoral international fairs in Turkey may now cover the participants' expenses in addition to the organisational costs of the fair. "Participants" are defined as companies established according to the Turkish Commercial Code that are members of an exporters' union (EC, 2017[27]).

[29] In 2016, two international incubators were established in the United States, for which KOSGEB finances office space, staff and acceleration services. The Middle East Technical University established the Technopolis incubator in San Francisco. Meanwhile, Starcamp, located in Palo Alto, has started activities in partnership with technoparks and universities. Within the scope of the International Incubation Center and Acceleration Support Programme, USD 3.85 million has been

allocated to support the establishment of incubation centres and USD 60 000 towards support for enterprises' participation in international accelerators.

[30] The Improvement of International Competitiveness Programme provides grant finance to SME umbrella organisations to be used toward promotion, training, market analysis, study visits, trade missions and other activities relating to internationalisation.

[31] Umbrella organisations here include chambers of industry, technological parks and organised industrial zones.

[32] In 2017, the 16 provinces generated USD 53.6 billion in exports, amounting to one-third of Turkey's exports.

[33] Turkey is currently in the process of developing the 11th Development Plan (2019-2030) which will include further measures to support integration into global value chains. The plan is being developed by a specialist commission which works on logistics, e-commerce and integrating SMEs into GVCs.

[34] Through the Enterprise Europe Network, KOSGEB helps to provide SMEs with consulting, mentoring and business-to-business services.

[35] The types of support included under the programme are employment support, software and hardware support, publicity support, foreign fair and travel support, test, analysis and certification support, and service procurement support.

[36] The Eurostat indicator refers to SMEs, excluding in the financial sector, employing between 10 and 249 employees.

[37] The International Consumer Protection and Enforcement Network is a worldwide network of more than 60 consumer protection authorities at which the EC, OECD, and the United Nations Conference on Trade and Development have observer status.

References

Bergner, S. et al. (2017), "The use of SME tax incentives in the European Union", *Discussion Paper*, No. 17-006, Centre for European Economic Research. [65]

Business Forum for Better Regulation (2018), *Business Forum for Better Regulation website*, https://enklereregler.dk/. [36]

Bütüner, H. (2014), *Organised Industrial Zones in Turkey - SWOT*, Linked In, https://www.linkedin.com/pulse/20141020214614-114102137-organized-industrial-zones-in-turkey-swot/. [48]

Çengel, Y. (2018), *Vision 2023: Philosophy of Education and Its Theoretical Bases (A Manifesto for Education)*. [29]

Cetinkaya, B. (2016), "Major changes to Turkey's bankruptcy postponement regime", *Eurofenix*, pp. 20-23, https://www.insol-europe.org/download/documents/935. [71]

Early Warning Europe (2018), *Early Warning Europe website*, http://www.earlywarningeurope.eu/ (accessed on 16 October 2018). [32]

EBRD (2018), *Transition Report 2017-2018: Sustaining Growth*, European Bank for Reconstruction and Development, London, http://2017.tr-ebrd.com/countries/. [13]

EC (2018), *2018 Communication on EU Enlargement Policy: Turkey 2018 Report*, European Union, Luxembourg, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-turkey-report.pdf (accessed on 25 October 2018). [20]

EC (2018), *2018 Economic Reform Programmes of Albania, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, Bosnia and Herzegovina and Kosovo*: The Commission's Overview and Country Assessments*, European Union, Luxembourg, http://dx.doi.org/10.2765/67765. [15]

EC (2018), "Economic Reform Programme of Turkey (2018-2020): Commission assessment", *European Commission Staff Working Document*, No. SWD(2018) 130 final, European Union, Luxembourg, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_turkey.pdf. [6]

EC (2018), *Economic Reform Programmes: Western Balkans and Turkey*, European Commission, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf. [17]

EC (2018), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", *Technical Paper*, No. 28, European Commission, Brussels, https://ec.europa.eu/info/sites/info/files/economy-finance/tp028_en.pdf. [8]

EC (2018), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 2nd quarter 2018", *Technical Paper*, No. 026, European Commission, Brussels, https://ec.europa.eu/info/publications/economy-finance/eu-candidate-countries-potential-candidates-economic-quarterly-cceq-2nd-quarter-2018_en. [67]

EC (2018), *European Innovation Scoreboard 2018*, European Commission, Brussels, https://ec.europa.eu/docsroom/documents/30704. [45]

EC (2018), *Instrument for Pre-Accession Assistance (IPA II): Revised Indicative Strategy Paper for Turkey (2014-2020)*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180817-revised-indicative-strategy-paper-2014-2020-for-turkey.pdf (accessed on 29 October 2018). [23]

EC (2017), *2017 SBA Fact Sheet: Turkey*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/turkey_sba_fs_2017.pdf (accessed on 31 October 2018). [27]

EC (2017), "Economic Reform Programme of Turkey (2017-2019): Commission assessment", *European Commission Staff Working Document*, No. SWD(2017) 143 final, European Commission, Brussels, http://data.consilium.europa.eu/doc/document/ST-8440-2017-INIT/en/pdf. [7]

EC (2017), *Inception Impact Assessment*, European Commission, Brussels. [61]

EC (2016), *European Neighbourhood Policy and Enlargement Negotiations: Turkey*, European Commission, https://ec.europa.eu/neighbourhood-enlargement/countries/detailed-country-information/turkey_en/ (accessed on 25 October 2018). [68]

EIB (2018), *Enlargement Countries: Turkey*, European Investment Bank, http://www.eib.org/en/projects/regions/enlargement/turkey/index.htm (accessed on 29 October 2018). [25]

EIB (2015), *EIB Support for Turkish SMEs*, European Investment Bank, Luxembourg, http://www.eib.org/attachments/country/turkish_smes_en.pdf. [26]

European Court of Auditors (2018), *EU pre-accession assistance to Turkey: Only limited results so far*, European Court of Auditors, Luxembourg, https://www.eca.europa.eu/Lists/ECADocuments/SR18_07/SR_TURKEY_EN.pdf (accessed on 29 October 2018). [24]

Eurostat (2018), *Eurostat (database)*, European Commission, https://ec.europa.eu/eurostat/web/national-accounts/data/database. [14]

Eurostat (2018), *NUTS - Nomenclature of Territorial Units for Statistics: Background*, European Commission, https://ec.europa.eu/eurostat/en/web/nuts/background. [70]

ILO (2018), *ILOSTAT: Country Profile*, International Labour Organization, https://www.ilo.org/ilostat/faces/oracle/webcenter/portalapp/pagehierarchy/Page21.jspx (accessed on 17 October 2018). [11]

IMF (2018), *Turkey: IMF Executive Board Concludes 2018 Article IV Consultation*, International Monetary Fund, https://www.imf.org/en/News/Articles/2018/04/30/pr18152-turkey-imf-executive-board-concludes-2018-article-iv-consultation (accessed on 10 October 2018). [69]

Invest in Turkey (2018), *Investment Zones*, Invest in Turkey, http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/SpecialInvestmentZones.aspx. [50]

KOSGEB (2018), *2017 YilI Faaliyet Raporu [2017 Annual Activity Report]*, Küçük ve Orta Ölçekli ĠĢletmeleri GeliĢtirme ve Destekleme Ġdaresi BaĢkanlığı, Ankara, https://www.kosgeb.gov.tr/Content/Upload/Dosya/Kayit/KOSGEB_2017_Y%C4%B1l%C4%B1_Faaliyet_Raporu.pdf (accessed on 26 October 2018). [42]

KOSGEB (2015), *SME Strategy and Action Plan 2015-2018, Energy Efficient Industry*, KOSGEB, Ankara, http://enerjiverimlisanayi.com/en/icerik/projemiz/41. [49]

MEB (2018), *2023 Eğitim Vizyonu [2023 Education Vision]*, http://2023vizyonu.meb.gov.tr/doc/2023_EGITIM_VIZYONU.pdf. [28]

MidSEFF (2018), *MidSEFF*, http://www.midseff.com/midseff_projects.php. [52]

Ministry of Economy (2018), *E-ihracat Stratejisi ve Eylem Plani 2018-2020*, Ministry of Economy, Ankara, http://www.resmigazete.gov.tr/eskiler/2018/02/20180206-6.pdf (accessed on 19 November 2018). [55]

Ministry of Juctice (2018), *Slov-Lex*, Ministry of Justice, Republic of Slovakia, https://www.slov-lex.sk/domov. [37]

Ministry of Trade (2018), *Bakan Pekcan: 16 ilde ihracat destek ofisleri kuruyoruz [Minister Pekcan: We are establishing export support offices in 16 provinces]*, https://www.ticaret.gov.tr/haberler/bakan-pekcan-16-ilde-ihracat-destek-ofisleri-kuruyoruz (accessed on 19 November 2018). [56]

MoNE (2018), *E-Graduates website*, Ministry of National Education, https://emezun.meb.gov.tr/. [30]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, OECD Publishing, Paris. [62]

OECD (2018), *Financing SMEs and Entrepreneurs: An OECD Scoreboard*, OECD Publishing, Paris. [31]

OECD (2018), *Job Creation and Local Economic Development 2018: Preparing for the Future of Work*, OECD Publishing, Paris, https://doi.org/10.1787/9789264305342-en (accessed on 25 October 2018). [72]

OECD (2018), *Main science and technology indicators Principaux indicateurs de la science et de la technologie*, OECD, https://www.oecd-ilibrary.org/science-and-technology/main-science-and-technology-indicators-volume-2018-issue-1/share-of-countries-in-triadic-patent-families_msti-v2018-1-table63-en. [47]

OECD (2018), *OECD Economic Outlook, Volume 2018 Issue 1*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_outlook-v2018-1-en. [9]

OECD (2018), *OECD Economic Surveys: Turkey 2018*, OECD Publishing, Paris, http://dx.doi.org/10.1787/888933798504. [2]

OECD (2018), *OECD Employment Outlook 2018*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2018-en. [10]

OECD (2018), *Open Government Data Report: Enhancing Policy Maturity for Sustainable Impact*, OECD Digital Government Studies, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264305847-en. [39]

OECD (2018), *Triadic Patent Families*, OECD Data, https://data.oecd.org/rd/triadic-patent-families.htm. [74]

OECD (2017), *Highlights from the OECD Science, Technology and Industry Scoreboard 2017: The Digital Transformation: Turkey*, OECD, https://www.oecd.org/turkey/sti-scoreboard-2017-turkey.pdf. [44]

OECD (2017), *Monitoring Report: The Principles of Public Adminsitration: Turkey*, OECD/SIGMA, Paris, http://www.sigmaweb.org/publications/Monitoring-Report-2017-Turkey.pdf. [34]

OECD (2017), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy*, OECD Publishing, http://www.oecd.org/governance/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm. [35]

OECD (2017), *OECD Science, Technology and Industry Scoreboard 2017: The digital transformation*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264268821-en. [46]

OECD (2016), "Assessing regional competitiveness in Turkey", *Boosting Regional Competitiveness in Turkey*, OECD Publishing, Paris. [3]

OECD (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/9789264254473-en. [22]

OECD (2016), "Strengthening the spatial dimension in the sector strategies of Turkey", *Boosting Regional Competitiveness in Turkey*, OECD Publishing, Paris. [63]

OECD (2015), *OECD Skills Outlook 2015: Youth, Skills and Employability*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264234178-en. [12]

OECD (2015), *Taxation of SMEs in OECD and G20 Countries*, OECD Tax Policy Studies, No. 23, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264243507-en. [60]

Republic of Turkey (2018), *Turkey Pre-Accession Economic Reform Program 2018-2020.* [5]

Resmi Gazete (2018), , http://www.resmigazete.gov.tr/eskiler/2018/10/20181027M1-1.pdf. [33]

T.C. Sayıştay Başkanlığı (2018), *Küçük Ve Orta Ölçekli İşletmeleri Geliştirme Ve Destekleme İdaresi Başkanlığı 2017 Yili Sayıştay Denetim Raporu [KOSGEB - 2017 (Sayıştay - State Aid Organisation) Audit Report]*, T.C. Sayıştay Başkanlığı, Ankara, https://www.sayistay.gov.tr/tr/Upload/62643830/files/raporlar/kid/2017/%C3%96zel_B%C3%BCt%C3%A7eli_%C4%B0dareler-B/KOSGEB.pdf (accessed on 30 October 2018). [59]

TUIK (2017), *ICT Technology Usage in Enterprises Survey*, http://www.tuik.gov.tr/PreTablo.do?alt_id=1048. [38]

Türk Eximbank (2018), *Letter of Intent*, https://www.eximbank.gov.tr/en/product-and-services/buyer-s-credits/letter-of-intent (accessed on 30 October 2018). [57]

Turkstat (2018), *İşgücü İstatistikleri, Temmuz 2018 [Labour Force Statistics, July 2018]*, Turkish Institute of Statistics, http://www.tuik.gov.tr/PreHaberBultenleri.do?id=27697 (accessed on 19 October 2018). [73]

Turkstat (2017), *Life Satisfaction Survey Micro Data Set 2016*, Turkish Institute of Statistics, http://www.tuik.gov.tr/MicroVeri/YMA_2016/sozlesme/index.html. [41]

Turkstat (2017), *Life Satisfaction Survey Micro Data Set, 2016: Summary Tables*, Turkish Institute of Statistics, http://www.tuik.gov.tr/MicroVeri/YMA_2016/ozet-tablolar/index.htm. [40]

TurSEFF (2018), *TurSEFF*, https://www.turseff.org/. [51]

World Bank (2018), *Business Reforms in Turkey*, World Bank, http://www.doingbusiness.org/en/reforms/overview/economy/turkey. [19]

World Bank (2018), *Doing Business 2019: Training for Reform*, World Bank, https://openknowledge.worldbank.org/handle/10986/30438. [18]

World Bank (2018), *Doing Business: Reforming to Create Jobs: Regional Profile Europe and Central Asia*, World Bank, http://www.doingbusiness.org/content/dam/doingBusiness/media/Profiles/Regional/DB2018/ECA.pdf. [16]

World Bank (2018), *Employment in Agriculture (% of Total Employment) (Modeled ILO Estimate), ILOSTAT (database)*, World Bank, https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?locations=TR&view=chart (accessed on 17 September 2018). [4]

World Bank (2018), *World Bank national accounts data and OECD National Accounts data files.*, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD (accessed on December 2018). [1]

World Bank (2018), *World Bank Open Data (database)*, https://data.worldbank.org/ (accessed on 19 November 2018). [54]

World Bank (2018), *World Development Indicators: Turkey*, World Bank, http://databank.worldbank.org/data/reports.aspx?source=2&country=TUR. [66]

World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*, World Bank, Washington, DC, http://dx.doi.org/10.1596/978-1-4648-1146-3. [43]

World Bank (2016), *Doing Business 2017: Equal Opportunity for All*, World Bank, Washington, DC, http://dx.doi.org/10.1596/978-1-4648-0948-4. [64]

World Bank (2014), *Turkey: Innovative Access to Finance Project*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/634551468172770162/Turkey-Innovative-Access-to-Finance-Project. [58]

Ziemann, V. and B. Guérard (2017), "Reaping the benefits of global value chains in Turkey", *OECD Economics Department Working Papers*, No. 1366, OECD Publishing, Paris, https://dx.doi.org/10.1787/d054af64-en. [53]

Further reading

EC (2013), *Entrepreneurship Action Plan: Reigniting the Entrepreneurial Spirit in Europe*, European Commission, Brussels, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A52012DC0795.

EC (2017), *EntreComp: The Entrepreneurship Competence Framework*, European Commission, Brussels, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/entrecomp-entrepreneurship-competence-framework.

EC (2018), *Proposal for a Council Recommendation on Key Competences for Lifelong Learning*, European Commission, Brussels, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018DC0024.

EC (2018), *DigComp 2.1: The Digital Competence Framework for Citizens with eight proficiency levels and examples of use*, European Commission, Brussels, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/digcomp-21-digital-competence-framework-citizens-eight-proficiency-levels-and-examples-use.

OECD et al. (2016), *SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/9789264254473-en.

Annex 19.A. OECD Scoreboard Indicators

Annex Table 19.A.1. Scoreboard for Turkey

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
					Debt						
Outstanding business loans, SMEs	TRY million	76 521	84 605	83 271	125 468	162 803	199 743	271 421	333 278	388 749	420 539
Share of SME outstanding loans	% of total outstanding business loans	40.14	33.8	31.7	35.52	35.47	37.77	37.94	37.67	35.34	32
Government loan guarantees, SMEs	TRY million	53	285	565	939	1 123	1 114	1 061	1 392	1 641	5 318
Government guaranteed loans, SMEs	TRY million	75	403	791	1 302	1 622	1 553	1 467	1 888	2 334	7 188
Direct government loans, SMEs	USD million	552	842	997	855	1 174	928	2 632	1 709	1 764	1 749
Non-performing loans, SMEs	% of all SME loans	3.62	4.79	7.64	4.49	3.1	3.17	3.12	3.27	3.92	4.9
					Non-bank finance						
Venture and growth capital	TRY thousands	13 676	854	6 316	47 553	373 204	110 097	335 549	124 397	135 308	343 192
Venture and growth capital (growth rate)	%, year-on-year growth rate	..	-93.76	639.58	652.9	684.82	-70.5	204.78	-62.93	8.77	153.64
Leasing and hire purchases	TRY million	11 661	14 385	11 066	10 711	15 112	17 154	24 957	29 485	36 718	44 022
Factoring and invoice discounting	TRY million	6 223	5 610	8 351	12 370	14 213	16 328	20 096	24 715	24 994	31 027

Source: OECD (2018[31]), *Financing SMEs and Entrepreneurs 2018: An OECD Scoreboard*, https://doi.org/10.1787/fin_sme_ent-2018-en.

Annex A. Methodology for the 2019 Small Business Act assessment:

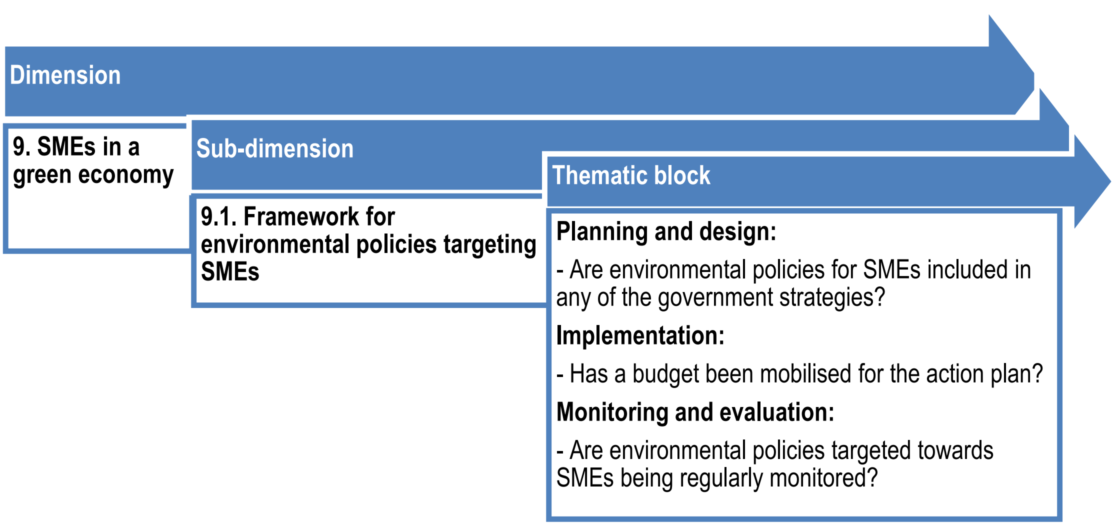
This section provides a detailed overview of the assessment methodology for the 2019 SME Policy Index.

Overview of the 2019 assessment framework and scoring

The process comprises two parallel assessments, a self-assessment by the government and an independent assessment by local consultants (see the Policy Framework and Assessment Process chapter).

The assessment grid is built upon the ten principles of the SBA, divided into 34 sub-dimensions. The sub-dimensions are usually also divided into thematic blocks, each with its own set of indicators. The thematic blocks are typically broken down into three components, representing different stages of the policy cycle: planning and design, implementation, and monitoring and evaluation (Figure A A.1). In few sub-dimensions where this approach is not applicable, for example in relation to the SME definition or the availability of some financial instruments within the access to finance dimension, thematic blocks may differ.

Figure A A.1. Dimension, sub-dimension and indicator level examples



The approach of assigning scores to reflect different stages of the policy cycle, allows governments to identify and target the stages where they have particular strengths or weaknesses. Each policy dimension, and their constituting parts, is assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest level, whist the level 5 is the strongest, indicating a level of development commensurate with OECD good practices (Table A A.1). The levels are determined through a participatory and analytical process, which is conducted by means of a self-assessment by the government and an independent assessment by local consultants, supplemented by private-sector interviews.

Table A A.1. Description of score levels

Level 5	Level 4 plus results of monitoring and evaluation inform policy framework design and implementation
Level 4	Level 3 plus evidence of a concrete record of effective policy implementation.
Level 3	A solid framework, addressing the policy area concerned, is in place and officially adopted.
Level 2	A draft or pilot framework exists, with some signs of government activity to address the policy area concerned.
Level 1	No framework (e.g. law, institution) exists to address the policy topic concerned.

The assessment framework comprises qualitative and quantitative indicators, which are scored based on questions in the following forms:

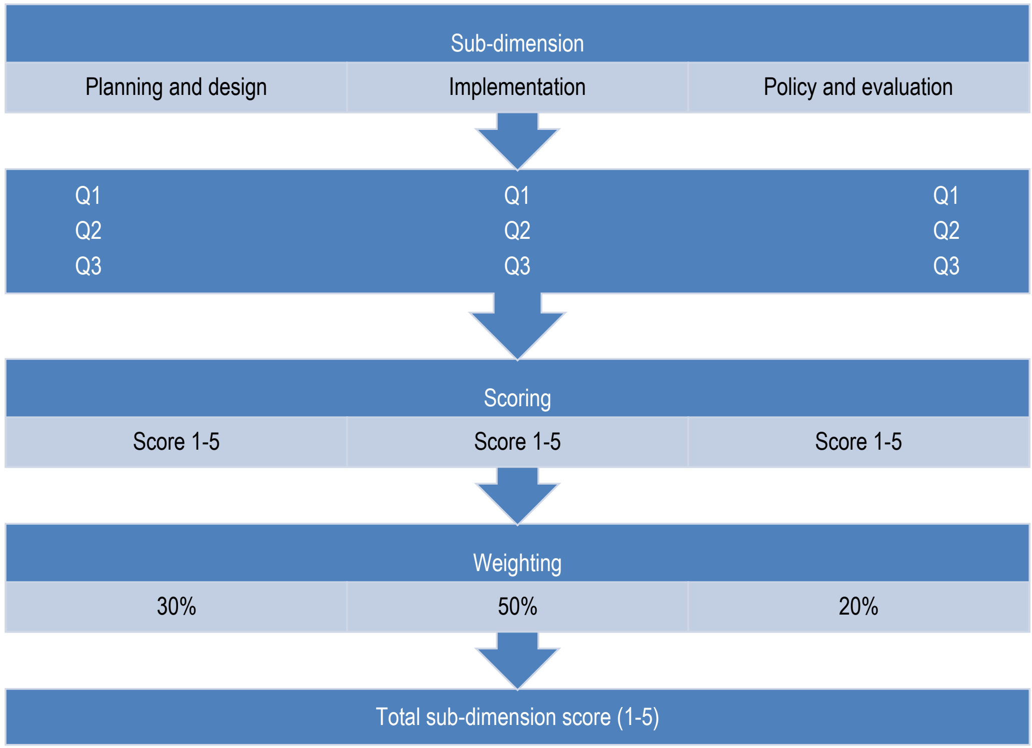
- **Binary questions,** allowing yes or no answers, such as "Does a legal definition of SMEs exist in your country?"
- **Multiple-choice questions**, such as "Does a multi-year SME strategy exist?" or "Does an SME policy implementation body or equivalent exist?" These questions offer a drop-down list of answers, such as "strategy is in the process of development", "draft strategy exists but not yet approved by the government", "strategy exists, it has been approved by the government and is in the process of implementation", and "there is no strategy in development".
- **Open-ended questions**, acquiring further descriptive evidence to add to the binary and multiple-choice questions. These questions are not themselves scored. Examples include "What is the budget for the SME implementation agency?", "How many people work in the agency?" and "How many ministries are represented in the governance board?"

Whenever possible, economies are asked to support their answers with evidence, by providing source documents such as strategies and budget plans. Each questionnaire also includes definitions of some of the terms used in the questions, as well as references and examples to help respondents answer the questions.

Each of the core questions is scored equally within the thematic block. For binary questions, a "yes" is awarded full points and a "no" receives zero points. For multiple-choice questions, scores for the different options range between zero and full points, depending on the indicated level of policy development.

The scores for the core questions are then added up to provide a score for each component. Scores are initially derived as percentages (0-100) and then converted into the 1-5 scale. Scores for the thematic blocks are then aggregated to attain a score for the sub-dimension, with each thematic block being weighted based on expert consultation. In general, planning and design accounts for 30% of the score, implementation 50%, and monitoring and evaluation 20%, to emphasise the importance of policy implementation (Figure A A.2). Weights were applied at sub-dimension level and thematic block level in the same way.

Figure A A.2. Scoring breakdown per sub-dimension



Main changes to the assessment framework since the 2016 SBA assessment

Since 2016, the SBA assessment framework has been revised to provide a more in-depth analysis of SME polices by covering the cutting-edge aspects. By asking more detailed questions about some institutions and policy measures, the assessment allows the formulation of more concrete and targeted recommendations.

Five new sub-dimensions have been added to the assessment and others expanded and amended to include policy aspects that were not covered in the previous cycle. The policy dimensions and sub-dimension weightings have been adjusted to allow for these additions while maintaining as much comparability with the 2016 assessment as possible.

Table A A.2. Overview of changes to the SBA assessment

SBA principle	Related policy dimension	Key changes
1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded	1. Entrepreneurial learning and women's entrepreneurship	New questions were introduced relating to the cross-sectoral co-ordination of policies addressing women's entrepreneurship, incentives for strengthening women's participation in the formal sector, data availability and gender sensitivity of policies.
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance	2. Bankruptcy and second chance for SMEs	A new sub-dimension "Prevention measures" was introduced to better distinguish between pre- and post-bankruptcy procedures.
3. Design rules according to the "think small first" principle	3. Institutional and regulatory framework for	Holistic measures to fight against the informal economy with a view to supporting the formalisation of SMEs have been added to the

	SME policy-making	assessment. The assessment now pays more attention to the monitoring and evaluation part of legislative simplification and RIA.
4. Make public administration responsive to SMEs	4. Operational environment for SMEs	A new sub-dimension on tax compliance procedures for SMEs has been added to the assessment. Monitoring and evaluation mechanism for company registration procedures are assessed.
5. Adapt public policy tools to SME needs	5a. Support services for SMEs	The questions were streamlined to acknowledge a more diverse set of answers. The assessment no longer evaluates whether economies' strategy documents associated with BSS provision include both measurable targets and the expected impact of measures, but only if they include measurable targets.
	5b. Public procurement	The assessment requests more information concerning general issues related to participation of SMEs in public procurement procedures.
6. Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions	6. Access to finance for SMEs	Introduction of a more detailed analysis of the quality of leasing and factoring legal frameworks.
7. Help SMEs to benefit more from the opportunities offered by the Single Market	7. Standards and technical regulations	The previous sub-dimensions on Technical regulations, Standardisation, Accreditation, Metrology, Conformity assessment and Market surveillance have been consolidated into a single sub-dimension, Harmonisation with the EU *acquis*. A new sub-dimension was introduced to examine SMEs' access to standardisation.
8. Promote the upgrading of skills and all forms of innovation	8a. Enterprise skills	Questions on how SME skills are linked to the smart specialisation approach and the Economic Reform Programme were introduced. Different categories of training provision are now addressed: start-ups, women entrepreneurs, SME internationalisation and growth, family businesses, and training in green and digital skills.
	8b. Innovation policy for SMEs	A new sub-dimension was introduced to recognise the importance of effective collaboration between SMEs and research institutions to enhance technology transfer and commercialisation of innovations.
9. Enable SMEs to turn environmental challenges into opportunities	9. SMEs in a green economy	An enhanced focus was put on examining whether the promotion of eco-efficiency and eco-innovation in the national strategic policy frameworks has been undertaken. The Incentives and instruments sub-dimension was updated to encompass a broader range of regulatory and other market-based instruments including performance standards, and environmental taxes and charges. Efforts on promotion and providing guidance carried more weight and were more thoroughly evaluated in this cycle of the assessment.
10. Encourage and support SMEs to benefit from growth markets	10. Internationalisation of SMEs	A new sub-dimension on e-commerce was added to assess whether programmes to promote the use of e-commerce and legal frameworks for e-payments and consumer protection are in place to secure the operational environment needed to support e-commerce.

Greater emphasis on the implementation of policies

In the previous assessment cycle, the assessed economies had made substantial progress in establishing policy frameworks across different areas. However, solid policy designs and institutional set-ups do not always translate into effective policy implementation. In order to better assess the effectiveness of SME policies, the assessment has been revised, to place more emphasis on their implementation.

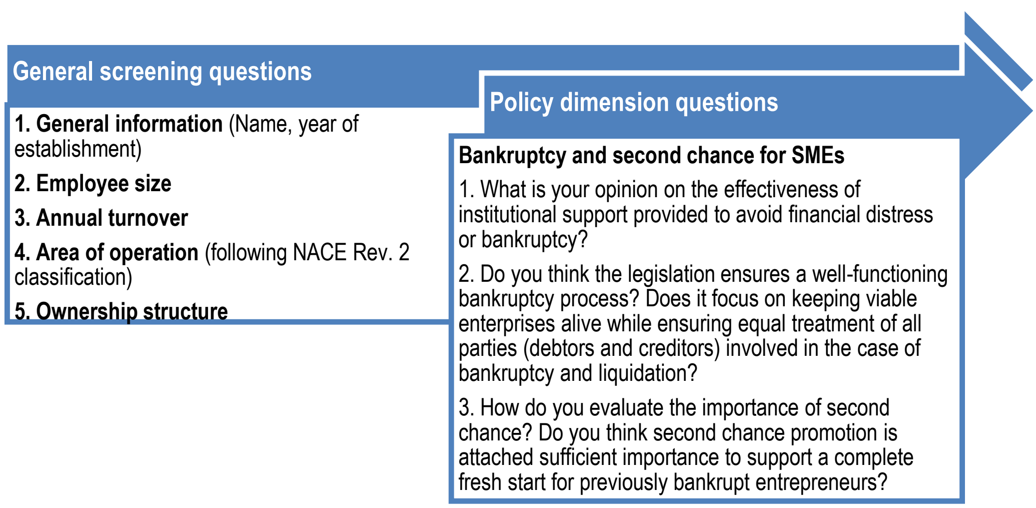
The weightings have therefore been adjusted and the implementation stage of the policy cycle is now allocated a weight of 50%, compared to 45% in the previous assessment. While the weight assigned to the planning and design stage has fallen to 30%, the weight for monitoring and evaluation has remained the same.

Private-sector feedback has been included to gauge the outcome of policies

The new assessment cycle endeavoured to measure policy outcomes more effectively by paying more attention to the insights of representatives from the private sector and civil society on the effectiveness of SME policies and support measures. In addition to shedding light on the actual state of policy implementation, their feedback also helped to uncover any unintended effects of existing policies. Standardised interviews were used for SME owners and managers and representatives of chambers of commerce, while the views of civil society representatives were captured by the local consultants when they were filling out questionnaires.

The face-to-face interviews with SME owners and managers were in two parts. In the first part, the interviewees were asked screening questions to collect information about their firms' characteristics. In the second part, interviewees were asked questions related to SME policies, covering the various SME Policy Index dimensions. Figure A A.3 illustrates the two-part structure of interviews with examples of questions for Dimension 2: Bankruptcy and second chance for SMEs. A detailed description of the interviews is presented in Annex C.

Figure A A.3. Structure of private sector interviews



Statistical data have been collected to allow improved comparison of performance over time

As some economies have reached high levels of convergence with the SBA principles (Level 3 or above) and advanced levels of policy implementation, information about the performance of policies became more important. The revised approach has enhanced its use of several types of statistics, which complement the information acquired from the two assessments. The approach integrates national statistics, company-level data from other international organisations, or independent company surveys to measure the performance of policies on the ground. Table A A.3 provides an overview of the types of statistics and data collected, their purpose within the SME Policy Index, and their main sources.

The enhanced data collection also led to the greater involvement of national statistical offices in this cycle.

Table A A.3. Data types and sources

Type of data	Main purpose within the SME Policy Index	Source
Macroeconomic data and business statistics	Statistical information for the country reports Support of the policy narrative written by the independent expert	National statistical offices International databases and entrepreneurship indicator programmes (OECD, Eurostat, World Bank, etc.)
Statistics on policy outputs	Measurement of the policy intensity and the actual policy output Measurement of policy convergence towards the EU average	Section on open questions in the SBA assessment questionnaires Data from the SBA Factsheets
Survey data	Measurement of SME perceptions of the effectiveness and usefulness of certain SME policies Measurement of policy convergence with the EU average	BEEPS Survey Eurobarometer data from the SBA Factsheet where available

Annex B. The Small Business Act assessment's scoring model for Bosnia and Herzegovina

Constitutional set-up of Bosnia and Herzegovina

The governance structure of Bosnia and Herzegovina (BiH) comprises the institutions of the state of Bosnia and Herzegovina, the governments of the two territorial and administrative entities – the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) – as well as Brčko District (BD). At entity level, both the FBiH and the RS have significant constitutional autonomy and regulate independently the matters which the Constitution of Bosnia and Herzegovina has not assigned to the state government.[1] The entities' parliaments have jurisdiction over a range of policies, among them healthcare, education, agriculture, culture, labour, police and internal affairs. Both entities have a president, prime minister and 16 ministries. The FBiH is furthermore divided into ten federal units (cantons), each with its own constitutions that prescribe their legislative, executive and judiciary authority, as well as the functioning of government authorities.

The 2019 SBA Assessment of Bosnia and Herzegovina

Bosnia and Herzegovina submitted four assessment questionnaires for the SBA assessment, one for the state and one each for both entities and Brčko District. Information from all four questionnaires has been taken into account in the analysis. Nevertheless, given that Brčko District only represents approximately 1% of the total population of BiH, it has not been included in the scoring.

SME policy making in Bosnia Herzegovina is much more decentralised than the other economies covered by the SBA assessment. Therefore, information from the two entities has been taken into account in the calculation of the country scores. Following the changes to the 2019 assessment (see Annex A for more information), the scoring model for Bosnia and Herzegovina has been revisited to allow for a more accurate and specific assessment of the different SME policy areas. Policy recommendations have been formulated to emphasise the importance of policy co-ordination in Bosnia and Herzegovina for averting the possibility that local policy measures infringe on the principle of a single domestic market and distort competition among enterprises based in different entities.

Based on these considerations and the availability of data, a scoring system involving four models has been developed (Table A B.1.)

Table A B.1. Overview of the four scoring models

Model 1	Model 2	Model 3	Model 4
1/2 (FBiH) 1/2 (RS)	2/3 (state) 1/6 (FBiH) 1/6 (RS)	1/3 (state) 1/3 (FBiH) 1/3 (RS)	State level only

For most of the dimensions (Bankruptcy and second chance, Operational environment for SMEs, Support services for SMEs, Innovation policy for SMEs, and SMEs in a green economy), a score has been derived by calculating a simple average of the two entities' score. This approach (Model 1) has been adopted principally since major policies, mechanisms and institutions under these areas exist mainly at the entity level and so needed to be reflected in the scoring.

For two dimensions (Access to finance, and Standards and technical regulations), the second model was selected, giving two-thirds of the weight to the state and one-sixth to each of the two entities, since responsibilities under these dimensions lie mainly at the state level. However, inputs from the entities were also recognised and included in the scoring.

For two other dimensions (Institutional and regulatory framework for SME policy making and Internationalisation of SMEs), a score has been derived using the third model, which allocates one-third of the weight equally to the two entities and the state. Finally, the Public procurement dimension only takes state-level information into consideration.

Table A B.2 gives an overview of all the SBA dimensions, providing the rationale for the selection of the scoring models. Dimensions 1 and 8a do not appear in this table. Their assessment was led by the ETF, which used a completely different scoring model. This involved only assigning a positive score for the dimensions' indicators when there was positive evidence in both entities (RS and FBiH). When either RS or the FBiH failed to satisfy the evidence required, they were not assigned a positive score, but credit was given in the write-up.

Table A B.2. Application of the scoring models to the SBA dimensions

SBA dimension	2019 SBA assessment	Rationale
2. Bankruptcy and second chance	Model 1	In Bosnia and Herzegovina there are no state-level responsibilities or programmes for this dimension.
3. Institutional and regulatory framework for SME policy making	Model 3	Legislative simplification efforts are being undertaken at the entity level. However, all three levels of government in Bosnia and Herzegovina have legal frameworks in place that define the general principles and procedures on conducting regulatory impact assessment (RIA) and public-private consultations (PPCs).
4. Operational environment for SMEs	Model 1	In Bosnia and Herzegovina, entities are responsible for their own company registration process. Moreover, there are no services available for obtaining licenses for SMEs at the state level. Although the state level has competences for tax compliance procedures, this policy area was not scored in this assessment cycle.
5a. Support services for SMEs	Model 1	Support services for SMEs are designed and implemented at the entity level. Moreover, a dedicated agency for provision of support services exists in each of the entities.
5b. Public procurement	Model 4	Public procurement is regulated by the state Law on Public Procurement.
6. Access to finance for SMEs	Model 2	Responsibilities under this dimension are dominantly at the state level. However, inputs from the entities are also recognised and included in the scoring.
7. Standards and technical regulations	Model 2	The greater weight (2/3) is given to the state to recognise its competences in overall policy co-ordination and transposition of standards and technical regulations. However, entity performance was also scored, as the initiatives and programmes to facilitate SMEs access to standardisation are dominantly at the entity level.

8b. Innovation policy for SMEs	Model 1[1]	Since the mechanisms and institutions to support SMEs in innovative activities are generally at the entity level, the scoring model accounts for their performance. Collaboration between SMEs and research institutions is also established and supported at the entity level. However, the scoring model also recognises the importance of the state, particularly for overall policy co-ordination and intellectual property rights.
9. SMEs in a green economy	Model 1	SME greening policies are devised and implemented at the entity level and there are no institutions at the state level that are in charge of promoting a green economy. Moreover, strategies and action plans that include goals for the green economy are adopted at the entity level.
10. Internationalisation of SMEs	Model 3	This dimension covers policies which can be introduced at both the state and the local level. In Bosnia and Herzegovina, institutions that play a role in export promotion exist at both levels, however, programmes to support SME integration into global value chains and programmes to promote e-commerce, are implemented at the entity level.

Note: [1] For Dimension 8b, model 1 is applied, with the sole exception of the thematic block on intellectual property rights which was assessed based on the state-level-inputs.

Notes:

[1] The competences of the institutions of Bosnia and Herzegovina are prescribed by Article III, paragraph (1) of the Constitution of Bosnia and Herzegovina. The competences of the entities are prescribed by the same article, in paragraph (2). Paragraph (3) of the article stipulates that all government competences not expressly assigned to the state-level government belong to the entities.

Annex C. Semi-structured interviews with private sector representatives

Introduction

In the 2016-19 cycle of the Small Business Act (SBA) Assessment for the Western Balkans and Turkey, the OECD endeavoured to better gauge policy implementation and outcomes by involving the private sector more intensively in the assessment process.

To do so, the OECD prepared a standardised questionnaire to collect private sector insights into the effectiveness of small and medium-sized enterprise (SME) policies and existing support measures. In addition to shedding light on the actual state of policy implementation, the questionnaire also aimed to reveal any unintended impacts of policies on SMEs, as well as to gather private sector recommendations across a variety of policy areas.

Methodology and implementation

The questionnaire was designed to standardise the process and ensure consistency across interviews. Local consultants in each of the seven assessed economies were hired to conduct semi-structured interviews with private sector representatives. In addition to owners and managing directors of SMEs, a number of interviews were also held with representatives of Chambers of Commerce.

The size and geographical distribution of SMEs were taken into consideration when selecting interviewees. This was crucial in order to ensure that the sample was as representative of the SMEs sector in the region as possible. In total, 40 interviews were conducted across the region. However, the small sample size meant that the results have been interpreted with caution in the analysis, and were not included directly in the scoring.

The interviews involved two parts:

1. Interviewees were asked screening questions to collect information about the following characteristics of their firm:

- year of establishment
- number of employees
- annual turnover
- sector of operation (based on the statistical classification of economic activities in the European Community (NACE Rev.2).

2. The consultants asked opinion-based questions prepared by the OECD and grouped by the SME Policy Index dimensions (excluding Dimensions 1 and 8a, whose assessment was led by the European Training Foundation). Table A C.1. illustrates the nature of questions, with a few selected examples below.

Table A C.1. Standardised interview question examples

Policy dimension	Question
7. Standards and technical regulations	Have you had any difficulties in complying with EU standards and technical regulations? If yes, please elaborate on these difficulties you have experienced, and whether you have received any public support to overcome them.
8b. Innovation policy for SMEs	Do the services and financial instruments offered by public institutions incentivise you to engage in innovation related activities? If not, in which areas would you like to see enhanced public support to address your major obstacles?
	If you have you ever co-operated with the public research institutions/academia on an innovative project, how would you assess your experience? If you have not co-operated so far, what are the main reasons for that, and are there any obstacles in doing so?

Following a review of the information collected in the interviews by the OECD, the local consultants were asked to re-approach the interviewees for additional information or clarification on certain elements where necessary.

OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
(03 2019 01 1 P) ISBN 978-92-64-31286-9 – 2019

SME Policy Index

Western Balkans and Turkey 2019

ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE

Robust SME sectors are critical to the prosperity of the six Western Balkan economies and Turkey, accounting for over 70% of those employed in the business sector and generating 65% of value added in these seven economies. Yet their potential remains untapped, as SMEs across the region grapple with numerous challenges that hamper their growth and productivity. They are still under-represented in international trade, and their contributions to value-added remain comparatively low as they have difficulties in moving or expanding into high value-added activities.

This report provides a comprehensive overview of the implementation of the ten principles of the Small Business Act for Europe (SBA) in the seven EU pre-accession economies over the period 2016-18. It monitors progress against similar assessments performed over the past decade and identifies the outstanding challenges affecting SMEs. It also provides targeted recommendations to remove barriers to SME development and unleashing their potential for driving inclusive economic growth.

Consult this publication on line at ***https://doi.org/10.1787/g2g9fa9a-en***.

This work is published on the OECD iLibrary, which gathers all OECD books, periodicals and statistical databases.
Visit ***www.oecd-ilibrary.org*** for more information.

OECD publishing
www.oecd.org/publishing

Co-funded by the European Union

ISBN 978-92-64-31286-9