PRIVATE SECTOR DEVELOPMENT

Project Insights

Implementing a Pilot SME Voucher Scheme in Montenegro

OECD

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This document has been produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union.

FOREWORD

Between 2000 and 2008 the Western Balkan economies experienced rapid growth, modest inflation, and increased macro-economic stability. The onset of the global economic crisis, however, saw a sharp drop in external trade and industrial production across the region. The crisis underscored the fact that buoyant growth prior to 2008 relied to a large extent on external financial flows – particularly FDI flows and international capital transfers that offset large and unsustainable trade and current account deficits.

The economic crisis is forcing governments in the region to make policy choices that will have implications for their long-term competitiveness. To assist Western Balkan governments in the design and implementation of those policies, the OECD Investment Compact for South East Europe implemented a three year, EU- financed, project called the Regional Competitiveness Initiative (RCI). The RCI's goal is to help governments in the region with the design of sustainable economic policies to support innovation and human capital development. Between 2010 and 2013, the RCI led pilot projects in seven Western Balkan economies: Albania, Bosnia and Herzegovina, Croatia, The Former Yugoslav Republic of Macedonia, Kosovo[*], Montenegro, and Serbia.

Beginning in 2011, each Western Balkan economy had the opportunity to implement a capacity building pilot project with the OECD IC. As its RCI pilot project, the Montenegrin government requested assistance with the design and implementation of a voucher programme to support small and medium sized enterprises. The decision to seek OECD support on this topic came as a result of a roundtable meeting on 7 October 2010 in Podgorica between members of the business community, researchers, government officials and the OECD IC.

[*] This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

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Preparation of this study has involved many experts, institutions and government officials. Alan Paic, Head of the OECD Investment Compact for South East Europe (OECD IC), has had overall management responsibility. The report was authored by Jakob Fexer, Viorica Revenco, and Anne-Christelle Ott from the OECD IC, Stephen Roper, Associate Dean, Professor of Enterprise, Director of the Centre for SMEs, Warwick Business School, and Ivana Zecevic, Manager for Enhanced Competitiveness and Export Promotion, Montenegro Directorate for the Development of SMEs. The final report was edited and prepared by Vanessa Vallée and Liz Zachary.

The analysis and recommendations presented in this study were reviewed and enriched by contributions by external experts and OECD analysts. These included the following: Milan Konopek, Regional Competitiveness Initiative Project Manager, OECD, Private Sector Development Division; Alistair Nolan, Senior Economist, OECD, Directorate for Science, Technology and Industry; Pierre-Yves Bellot, Delegation of the European Union to Montenegro; Claire Burgio, OECD, Private Sector Development Division; Peter Milford, Team Leader of the European Union Project on Technical Assistance to Improve the Business Environment for Small and Rural Enterprises; David Miller, Team Leader, EU Support to Institutional Capacity Building for Regional and Local Economic and SME Development, Bosnia and Herzegovina; Jibran Punthakey, OECD, Private Sector Development Division; Sven Schade, DG Enterprise and Industry, European Commission; and Gilles Vandorpe, UNIZO, Flanders. Finally, the report owes much to officials from the Montenegrin government, particularly from the Directorate for the Development of SMEs and the Ministry of Economy and partner institutions, particularly the BAS Programme of the EBRD.

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ABBREVIATIONS

BAS	Business Advisory Services Programme
BESRE	Business Environment for Small and Rural Enterprises
EBRD	European Bank for Reconstruction and Development
EU	European Union
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
JAPTI	Public Agency for Entrepreneurship and Foreign Investment, Slovenia
NWDA	North-West Development Agency, Regional Development Agency, UK
OECD	Organisation for Economic Co-operation and Development
REDAH	Regional Economic Development Agency of Herzegovina
SEE	South East Europe
SME	Small and medium-sized enterprises
SMEDD	Directorate for Development of SMEs
TAM	Turn Around Management Programme
TOR	Terms of reference
VEM	Business Centre, Slovenia (Slovenian acronym for *Everything in One Place)*

EXECUTIVE SUMMARY

This study assesses the feasibility of a voucher scheme to support small and medium-sized enterprises (SMEs) in Montenegro. Voucher schemes provide small amounts of public subsidy to SMEs to help them access external support for the development of specific competencies. Reviews of international experiences with voucher schemes suggest that they can help SMEs by improving their innovation capabilities and in helping overcome specific barriers to their development, such as risk aversion.

The Montenegrin government requested the OECD Investment Compact for South East Europe's (OECD IC) assistance in preparing this feasibility study. The Montenegrin government recognises that future economic growth depends significantly on the competitiveness of the SME sector and their SMEs' ability to innovate. This is a priority noted in the *Strategy for Development of SMEs 2011-2015.*

This report is divided into four sections. The first section reviews international best practices in the design and implementation of voucher schemes. Section two assesses the feasibility of the implementation of a voucher scheme in Montenegro based on the current economic conditions, existing policy and institutional framework, the state of the local consultancy market, and the needs of export-oriented SMEs in Montenegro, analysed through a survey of 150 respondent firms. In addition to the survey, local research institutions, business associations, experts, and international organisations active in Montenegro were regularly consulted throughout the project. The section also considers alternative policy measures. Section three outlines the proposed scheme's objectives and priorities while considering the potential risks that could hamper the successful implementation of the scheme. Section four provides specific proposals for a pilot implementation phase.

This study recommends that a voucher scheme supporting SME development in Montenegro be implemented in two phases. In the first, or 'pilot' phase, approximately 50 SME vouchers would be distributed. One of the benefits of the pilot scheme is that it provides the implementing agency with capacity-building experience prior to the implementation of the scheme on a larger scale. A second, full 'implementation,' phase would follow if the results of the pilot phase proved successful.

In keeping with international best practices, this report also recommends maintaining a 'light-touch' administrative approach. This is important for the success of a voucher scheme as much of its appeal for participating businesses lies in its simplicity and low entry barriers. This is an important point for SMEs with stretched managerial resources.

The main recommendations regarding the design of the pilot-phase voucher scheme are the following:

- Vouchers should have a face value of EUR 3,000 to be used as partial funding for an externally-funded project costing a minimum of EUR 4,000.

- Eligible costs for the scheme are external fees paid to consultants or trainers, exclusive of any VAT or other taxes.

- Vouchers are to be issued to SMEs and are redeemable after the successful completion of the agreed project and following the payment of the external consultant/trainer by the SME. The issuance is limited to one voucher per SME and one voucher per consultancy service.

- SMEs eligible to participate in the voucher scheme should meet specified eligibility criteria. Criteria should be simple and straightforward, to ensure the lightest possible administrative procedures and avoid fraud. Examples include the following:

  – Firms must be legally constituted in Montenegro;

  – Firms must provide evidence of export activity with at least one year of operations;

  – Firms have not entered into any commitments, prior to receiving the voucher, with the knowledge provider that will carry out the project; and,

  – Firms have no outstanding obligations to the government (e.g., unpaid taxes).

- Eligible services are those provided by external consultancy services to support the development of standard management capabilities, and to improve the innovation, competitiveness and export potential of exporting SMEs (e.g., sales and marketing, business planning and strategy, financial management and control, human resource and personnel management, and quality control management).

- Eligible services providers are registered on the databases of local consultancy service providers accredited under the EBRD BAS programmes and/or international locally registered companies.

- The scheme should be implemented through the Directorate for Development of SMEs (SMEDD) with national coverage.

- SMEs should submit a basic application form detailing the nature of the project that they wish to be supported by the voucher. The final number of eligible projects to receive the voucher should be based on a randomised 'lottery' process. The 'lottery' should be made public to increase the transparency and credibility of the process.

- To minimise the risks for potential fraud, the voucher scheme should have several safeguard measures in place these include, but are not limited to the following:

  – clear and transparent eligibility criteria for participating SMEs and service providers;

  – a co-financing obligation by the beneficiary SME (i.e., the voucher can cover up to 75% of eligible costs associated with external consultancy support, with the rest being financed by the SME);

  – a limit of one voucher per successful applicant SME and per consultancy service provider;

  – the beneficiary SME must first pay the service provider before being reimbursed by the voucher;

- staff at SMEDD should receive specialised training in ethics, privacy and fraud awareness prior to the launch of the scheme;
- monitoring and evaluation of the voucher scheme should be conducted by independent parties
- at least 25% of the projects approved to receive a voucher should be audited;
- any collusive behavior by applicants and consultants should be prosecuted; and
- public disclosure of all cases where fraud has occurred.

Following the completion of the pilot phase, an evaluation should be performed to understand if the SMEs that received a voucher actually benefited from it and whether the scheme led to innovative activity and/or enhanced productivity of those recipient firms.

1. VOUCHER SCHEMES

This section reviews the economic rationale behind voucher schemes and international practices associated with their implementation. Vouchers have been used across many OECD countries to support the competitiveness of SMEs. Those experiences provide the foundation for elaborating the Montenegro-specific design features elaborated in this report.

The rationale behind voucher schemes

Underpinning the justification for voucher schemes is the idea that the diffusion of knowledge is central to the effective operation of innovation systems (Cooke, P, and K Morgan, 1998).

Consultants can directly transfer technology and knowledge, innovation support, and training management. Consultants can also provide companies with a more thorough understanding of their needs and opportunities; for instance, besides providing training, consultants can also assist firms in defining their training needs (Bessant and Rush, 1995). Bessant and Rush call this "bridging the gap between technological opportunity and [...] user needs".

However, SMEs generally have low levels of engagement with external knowledge providers i.e., public service providers, universities, public-private labs, and private commercial research and development, private legal and private consultancy companies. SMEs may see such external links as irrelevant to their business activities or be unwilling to use resources to identify relevant individuals and companies and to engage with them. For example, a Dutch policy paper explaining the rationale for a voucher scheme argues that: "SMEs do not make sufficient use of knowledge that others have to offer, even though the available knowledge could play a major role in developing new products, processes or services" (Cornet, Vroomen and van der Steeg, 2006).

Such behavioural failures can lead to socially sub-optimal levels of innovation activity and unexploited complementarities (Carlsson and Jacobsson, 1997). These systemic failures have been linked to behavioural biases, including inertia, excessive risk aversion and myopia, which may be particularly prevalent among SMEs (Potts and Morrison, 2009). Inertia is the tendency to accept the status quo, no matter how strong the case for change might be. Excessive risk aversion refers to a cognitive bias that makes SME managers or owners make choices that anticipate more certain outcomes, particularly at the boundaries of their knowledge or experience. Myopia is the tendency to opt for short-term gain at the expense of longer term, strategic decisions. Myopia is more common in smaller enterprises, as they often have limited financial means to finance long-term projects. These behavioural biases may make SMEs reluctant to invest in potentially risky innovation activities.

Interventions such as voucher schemes that encourage collaboration with external knowledge providers aim to overcome these behavioural biases. Innovation voucher schemes aim at building "new relationships between SMEs and public research institutions" to stimulate knowledge transfer and form long-term relationships (OECD, 2010) while SME voucher schemes target new collaborations between SMEs and business service providers (consultancy and/or training organisations).

Consultancy and training organisations and universities have few incentives to work with smaller firms when the returns from working with larger companies or public agencies are greater. This results in a sub-optimal level of engagement with smaller firms and a low level of innovative activity.

Therefore, from the supply side perspective, the main objective of voucher schemes is to overcome part of this incentive problem by creating a market for providing services to smaller firms. This should lead to new relationships between SMEs and external knowledge providers which can both stimulate knowledge transfer and innovation directly, but also act as a catalyst for the formation of longer-term and more in-depth relationships. In other words, the vouchers are intended as pump-priming funding through which initial relationships can be established.

Many voucher schemes' seek to strike a balance between demand side (i.e. SME) benefits and supply side (i.e. consultancy and training companies etc.) considerations. For example, the Slovenian SME voucher scheme of 2001-2009 aimed at addressing the low demand for consultancy services as well as motivating entrepreneurship, increasing the number of SMEs, and stimulating eBusiness (Pro Inno Europe, 2009).

It is important to note the difference between a voucher and a grant. The latter involves "more public interference in terms of selecting the best [innovative] proposals and allocating relatively large subsidies to only the best performing applicants" (Wintjes 2009) A voucher scheme represents small subsidies targeting a large range of companies. In addition, "a grant scheme calls for quality of content and service providers, while a voucher scheme, to be successful, typically requires speed and low administrative barriers" (Wintjes, 2009).

Voucher schemes and their 'additionality'

The concept of additionality is a key motivation behind voucher schemes. It is identified as "the extent to which desirable outcomes would have occurred without public intervention" (OECD, 2010). There are three types of additionality – input, output and behavioural additionality. Output and behavioural additionality are widely used as evaluation measures of voucher schemes.

- Input additionality – the extent to which government intervention supplements or substitutes for inputs provided by other means, e.g. the market, or by other actors, e.g. firms' own resources.

- Output additionality – the proportion of outputs that would not have been created without public intervention.

- Behavioural additionality – the difference in behaviour of a target population from public intervention. […] Behavioural additionality concerns itself […] more with sustained changes in the behaviour of target groups, induced by contact with any stage of a programme or policy" (OECD, 2010)

An interim evaluation of the "Creative Credits Scheme" in the UK, a business to business voucher scheme intended to build links between SMEs and creative service suppliers, demonstrates the output additionality of the policy tool (Bakshi et al, 2011):

- For every ten credits awarded, eight were used to support business to business relationships involving creative servicers that would not have formed in the absence of the scheme.

- Approximately 80 % of recipients indicated that their innovative capabilities had been enhanced as a result of the scheme.

- There was significant evidence of short term commercial benefits from these new relationships, with firms anticipating further sales benefits over a two or three year period. These benefits occurred primarily through the new partnerships developed by the scheme and knowledge transfer to SMEs.

Examples from several OECD countries have shown the potentially strong additionality of voucher schemes. Evidence from the pilot phase of the Dutch innovation voucher scheme suggested that (Cornet, Vroomen and van der Streeg, 2006):

- Overall satisfaction levels among voucher users was high, although there was less overall satisfaction about the price/quality ratio – perhaps reflecting the point about the perceived cost of research institutions. Estimates of additionality suggest that around eight out of ten vouchers represent projects which would not have been commissioned without the voucher scheme. This level of additionality is high relative to other innovation incentives.

- The majority (76%) of voucher recipients contracted for assignments of EUR 7,500 only. In other words they added none of their own money to the value of the voucher.

- A subsequent assessment of the innovative behaviour of voucher winners from the Dutch innovation voucher scheme identified positive effects in process improvement, although no positive effects were identified for product innovation (Cornet, Vroomen and van der Streeg, 2006).

In the UK, evaluations of sub-national innovation voucher schemes have also been largely positive, stressing high levels of take-up, significant project level additionality and often significant behavioural additionality.

However, robust longer-term evaluation of the impact on job creation and growth remains limited (Biggar Economics, 2009a) because most of the existing voucher schemes have been established too recently to be accurately assessed.

SME voucher schemes versus innovation voucher schemes

Voucher schemes have been widely adopted across Europe with more than 20 such schemes now operating in 15 European countries. There are two main types of voucher schemes, both of which aim to increase the absorptive capacity of SMEs: SME voucher schemes and innovation voucher schemes.

It is however important to note that SME voucher schemes can also lead to the introduction of innovations and in particular marketing or organisation innovations (Box 1). Because of their focus on R&D and product development, innovation voucher schemes are more likely to result in product and process innovations.

Box 1. Innovation

Innovation refers to the development and adoption of a new "product, process, marketing method or organisational method […] new (or significantly improved) to the firm. This includes products, processes and methods that firms are first to develop and those that have been adopted from other firms and organisations." (OECD and Eurostat, 2005). The following classification of product, process, organisation and marketing innovation is based on the definitions of innovation adopted in the OECD:

Product innovation is the implementation/commercialisation of a product (good and service) that is new or significantly improved in terms of characteristics or intended uses such as technical specifications, components and materials, incorporated software, user friendliness, etc.

Process innovation is the implementation/adoption of new or significantly improved production or delivery methods. It may involve changes in technique, equipment, human resources, working methods, software, or a combination of these.

Organisational innovation is the introduction of significantly changed organisational structures, advanced management techniques, or new or substantially changed corporate strategic orientations. It is valid only if there is a measurable change in output (productivity, sales etc). The concept relates to the implementation of organisational methods that are taken by management and have not been previously used by the company.

Marketing innovation is a new or significantly improved marketing concept that is taken into practice such as significant changes in product design or packaging, product placement, promotion and pricing. The concept refers to the adoption of a new (not previously used) marketing method that is developed either by the company itself or adopted from other companies. It can be a new customer interaction channel, a distribution system, a technological concept, or a combination thereof. A marketing innovation always includes replicable elements that can be identified and systematically reproduced in other cases or environments.

SME voucher schemes

SME voucher schemes support some form of capability development within firms, generally with a focus on boosting innovation or export performance. Eligibility conditions for this type of schemes are generally broad to enable firms to access a wide range of consultancy or training support services. Examples of this type of scheme are the SME voucher scheme which operated in Slovenia from 2001 to 2009, described in detail in the next section, and the current Flemish voucher scheme focused on training and education, business advice and internationalisation (Gilles Vandorpe, 2011).

The development of SME voucher schemes is based on the hypothesis that SMEs and/or would-be entrepreneurs are either unwilling or unable to pay for these services at the market price, due to behavioural biases such as inertia, excessive risk aversion and myopia. Accessing consultancy services may directly contribute to innovation activities in SMEs and/or provide a bridge to other sources and types of external knowledge (Bessant and Rush, 1995). On the supply side, SME voucher schemes have aimed at building a qualified and reliable network of business service providers.

Innovation voucher schemes

Innovation voucher schemes generally have a narrower focus on product (good or service) and process development and have been introduced to foster collaboration between SMEs and knowledge institutions. SMEs that have innovative ideas often lack the in-house expertise to successfully convert these ideas into new products. Innovation vouchers therefore work as empowering tools for SMEs to approach research institutions and acquire know-how. Importantly, they do not aim at financing the delivery of full research projects but seek to catalyse 'first innovation activities'. Finally, innovation vouchers encourage research institutions to work with small firms when their inclination might be to work with larger firms – in anticipation of greater returns – or to have no relationships with industry at all. The Dutch innovation voucher scheme and the UK West Midlands voucher scheme are good examples of this type of measure.

Key elements in the design of a voucher scheme

Responding to the needs of local SMEs

Voucher schemes have to respond to the most pressing needs of local SMEs in order to meet large demand and ultimately have a significant impact. The design of a voucher scheme should therefore be led by demand factors. Although supply-side considerations cannot be neglected, existing capabilities and resources should not dictate the design of a specific voucher scheme. In fact, a voucher programme might even generate supply with the emergence of business support and knowledge services that are needed by small local firms but not yet supplied by local consultants or researchers.

Therefore, an SME needs analysis is a crucial first step in designing a voucher programme. Such an analysis helps identify the main problems and challenges faced by potential beneficiaries such as training needs or needs for particular services (i.e. marketing services, technology transfer, assistance to improve the organisation of the company etc...).

Define clear objectives

The first principle of the Riga Declaration, a set of guidelines on the design of innovation voucher schemes developed by the European Commission entitled "Realising the full potential of innovation voucher programmes" (European Commission, 2010), is to clearly define the objectives of a voucher scheme.

Indeed, different initial objectives have led to significant design and implementation variations across schemes. In the Netherlands, the goal was to increase innovation activities in SMEs. The application process was therefore very simple and no description of the project was required. By contrast, in Manchester, the Creative Credits scheme aimed more specifically at helping businesses develop their ideas by teaming up with firms in the creative industry. Not only was the sector specified, but accredited creative business service providers were asked to establish a catalogue of precise services that SMEs would have to choose from.

Voucher size

A number of factors govern the choice of voucher size. First, the nature of the type of support being provided is crucial. Where a voucher is designed to support consultancy or training rather than having a technological focus, as innovation vouchers often do, values tend to be smaller, often in the range of EUR 2,500 to EUR 5,000. Local consultancy and training costs also influence the size of the voucher; vouchers in Northern European countries tending to be larger in value than those in transition economies. In Canada, the government of Alberta launched a substantial innovation voucher scheme allocating vouchers ranging from CAD 15,000 for a feasibility study to CAD 50,000 for more substantial technology development activities. Finally, voucher size may also reflect whether or not there is an SME contribution.

Some large schemes also allow SMEs to cumulate vouchers up to a certain limit (Wallonia, Greece, Flanders) or to pool vouchers. In Ireland, groups of up to ten companies can apply for a "pooled voucher'' worth EUR 50,000 through an innovation voucher scheme. In the Netherlands, a maximum of ten large vouchers can be combined by SMEs for significant research projects. The aim of this aspect of voucher schemes is twofold. First, the scheme encourages SME networking and collaborative development alongside the relationship with the knowledge provider. Second, it allows firms to benefit from potential economies of scale which may arise when working on larger projects.

The size of the voucher also has to take into consideration other parameters of the voucher scheme and other aspects of the design, some of which will be discussed in more detail below. For instance, a higher SME contribution may extend the number of firms that can be assisted but may reduce the attractiveness or accessibility of the scheme to smaller or less developed firms. Larger vouchers may also be more prone to fraud than those with lower face values, and those with an SME contribution may be less attractive to fraud. Finally, there is a trade-off between the size of projects and the number of SMEs that can be assisted with a given budget.

Private sector contribution

The introduction of a private sector contribution requirement should also be assessed. On the one hand, an additional private sector contribution may help focus support on firms really willing to acquire expertise. On the other hand, it might select SMEs which would have undertaken their projects even without public support, thereby leading to more deadweight effects (OECD, 2010). Where voucher schemes require an SME contribution (in fourteen of the 25 schemes considered) this is typically 50% of the face value of the voucher. For larger vouchers, SMEs are often asked to contribute a quarter or a third of total project costs.

Beneficiary companies

Different eligibility criteria for SMEs relate to the specific objectives of each scheme, whether aimed at developing a particular sector or region. These objectives generally reflect national (or regional) development priorities and should be consistent with a broader SME development strategy. The availability of other SME support measures should also be considered with any voucher scheme designed to complement and support other initiatives.

SMEs are often the main beneficiaries of voucher schemes because they tend to approach external knowledge providers less frequently due to behavioural and resource constraints. SME voucher schemes target the general population of SMEs in the country or a sample restricted according to specific criteria such as sector or primary activities. There are also some variations across schemes: some focus on micro and small companies while others are more oriented towards medium-sized enterprises. In some schemes, such as the Slovenian and Bosnian and Herzegovinian ones, targeted beneficiaries include not only existing SMEs, but also potential entrepreneurs to stimulate entrepreneurship and self-employment.

In some cases, eligible SMEs are restricted to specific sectors. For example, while in Denmark the voucher scheme was directed at companies from the manufacturing and service sectors, in Bosnia and Herzegovina the scheme implemented by the Regional Economic Development Agency of Herzegovina (REDAH) excluded hotels, restaurants, and retail shops. The selection of sectors is usually determined by the overall development priorities of the country or the region.

Eligibility may also be based on geographic criteria. In the UK Creative Credits scheme, for example, both the voucher recipient SMEs and their creative service providers were required to be located in the Greater Manchester region and adjacent areas. The rationale for this was based on earlier research, which had suggested particularly low levels of connectivity between SMEs and creative firms in the region, and the potential value of stimulating such linkages (Bakhshi et al (2011). As in this case, the geographical targeting of voucher schemes tends to reflect the developmental needs or priorities of the nation or region. Pilot schemes focused on areas with a strong existing administrative capacity and a strong supply of knowledge providers, as in Slovenia, are exceptions to this tendency.

Other criteria can also be applied. For instance, it is generally a requirement that prior to receiving a voucher, SMEs do not enter into any commercial arrangements with the knowledge provider that will provide the service. In some cases, SMEs that apply are already fairly innovative (Netherlands). In other schemes, intervention is focused on companies that have very little experience in research and development (Portugal).

Even if they are restrictive, eligibility criteria should be simple and straightforward, some of the most common being as follows (OECD, 2010):

- The firm is registered in the country or region which implements the scheme and is not subject to a suspension of payments for protection against creditors;

- The firm abides by the national definition of an SME;

- The firm has not received more than a certain amount of public aid over a defined period of time (e.g. in the EU, this tends to correspond to the state aid de minimis statement); and

- The firm has not entered into any commitments, prior to receiving the voucher, with the knowledge provider that will carry out the project. This has the clear objective of increasing the additionality of the measure.

Eligible projects

Alongside decisions about the eligibility of SMEs and knowledge or service providers, decisions also need to be taken about the type of projects the scheme will support. Eligibility criteria for projects reflect the ambitions of the scheme, the state of development of the host economy; and the character of the eligible group of knowledge or service providers. For example, within the portfolio of voucher schemes in Flanders, each scheme has a clear statement on the activities it will fund.

The consultancy and training services targeted under SME voucher schemes concentrate on a range of specific areas such as management, business planning, marketing, sales and exports, human resources, financial management and control, intellectual property protection, ICT, and innovation in products and processes. A number of schemes, for instance the Slovenian Voucher Scheme on Consultancy and Training Services, exclude accounting and legal services.

Eligible services should be demand-led. They are in line with the pre-identified demand for services of beneficiary companies targeted under voucher schemes. The demand is generally re-assessed and the focus of services adapted to changes in needs of the beneficiary companies. In most voucher schemes, the demand has been focused on management, organisation, business planning and marketing development needs.

Criteria are set to achieve the specific objectives of the scheme but also take into account alternative existing forms of government support. For instance, the Creative Credits programme in the Greater Manchester region of the UK was developed partly to complement the existing innovation voucher programme run by the regional development agency (North-West Development Agency, i.e. NWDA). The

NWDA innovation voucher scheme focused on supporting technical development – often product or process innovation – by SMEs usually in partnership with universities. The Creative Credits programme focused on supporting business-to-business partnerships to develop effective marketing solutions often involving e-commerce. The different emphasis of the schemes eliminated any overlap or possibility of double funding and created potential synergies between the two schemes.

A lesson to be drawn from the international experience described above is the importance of clearly defining the types of projects to be supported by the scheme. These should be clearly linked to the scheme's objectives and also take into account other forms of support available locally.

Business service providers and knowledge service providers

As with decisions about the eligibility of different types of companies, decisions about the eligible group of knowledge providers or business service providers depend strongly on the objectives of the scheme. If a voucher scheme is simply intended to benefit a group of SMEs and have no supply side or local development objectives, opening up the scheme to all knowledge or service providers might be optimal. However, this may make it difficult for SMEs to identify the most appropriate partner and also to ensure that the quality of the knowledge or business service providers is maintained.

Business service providers typically include individual consultants and trainers and/or consulting and training companies/NGOs. Business service providers under SME voucher schemes usually need to receive official accreditation from the agency issuing the voucher to attest that they are sufficiently qualified and thus improve acceptability on behalf of SMEs. For example, under the Flemish SME Voucher Scheme service providers need to be licensed by the Flemish authorities. The accreditation criteria focus on successful online registration and fulfilling general and specific conditions depending on the pillar: training and education, business advice, technological exploration, international business advice and strategic advice.

The accreditation procedure is particularly important in countries where entrepreneurs do not trust the expertise of companies offering consultancy services (Klepic, Bevanda and Juriln, 2010). Experience with voucher schemes in different countries has suggested a range of different mechanisms for evaluating potential consultants or trainers (sometimes called knowledge providers). In the Former Yugoslav Republic of Macedonia, a commission representing both professors and employees of the voucher administering agency has been used to select consultants based on a number of eligibility criteria (education, professional experience, competence field, etc.). In the Netherlands scheme, which focused on technological innovation, only universities were able to act as knowledge providers (Cornet, M., B. Vroomen, et al., 2006). In some UK schemes (e.g. in the North West of England), an open call was made and firms and educational institutions were able to apply to be considered as knowledge providers. An assessment was then made of their capability before they were considered 'eligible' to provide services through the scheme (Biggar Economics, 2009b). In Slovenia, in the early years of the SME voucher scheme (2001-2004), the implementing body was accrediting generalist consultants via custom-designed examinations and approving specialists upon their fulfilment of certain criteria (references, diplomas). This approach was subsequently stopped.

In addition, training programmes may be offered to consultants and trainers. Training may even be required for accreditation. Indeed, in the REDAH voucher programme, service providers seeking accreditation had to follow a training session and subsequently take an exam.

Most innovation voucher schemes have an ambition to develop the local supply side by strengthening local university-SME relationships. In the Irish voucher scheme, for example, firms in Ireland are able to access universities both in Northern Ireland and Ireland to support cross-border integration. In the UK Creative Credits scheme, both SMEs and knowledge providers have to be within the region of Greater Manchester in order to strengthen local networks.

However, some schemes extend to foreign knowledge providers. The schemes allowing international cooperation are found in countries characterised by relatively good innovation performances including Germany, France, Denmark, Austria, Flanders and the Netherlands (EC Enterprise and Industry Directorate General, 2009).

In most innovation voucher schemes, service providers are restricted to research institutions. Additionally, a large number of schemes limit service provision to public or semi-public research organisations (EC Enterprise and Industry Directorate General, 2009). However, a few schemes (e.g., the Netherlands, France, Cyprus, Flanders) allow private research institutions and R&D companies to provide knowledge services. A very small proportion of schemes include private consultants as eligible knowledge providers (North West UK).

Two-step implementation phase

International good practice in developing and implementing voucher schemes follows two phases: an initial pilot phase, designed to test specific features of the voucher scheme before it is launched on a larger scale; and, a larger implementation phase itself. For example, the SME voucher scheme in Slovenia was implemented as a pilot project in 2001 by engaging two business centres before the scheme was enlarged and engaged all thirty-five business centres across the whole country. Similarly, in the UK, innovation voucher schemes were piloted in the West Midlands prior to the extension to the UK as a whole following the Innovation Nation White Paper of 2008. The Dutch innovation voucher scheme also had its origins in sub-national pilot schemes.

The Implementation Phase provides the opportunity to change the structure of the vouchers or the conditions under which they are provided. For example, the Dutch scheme started with a pilot phase in which no SME contribution was required, i.e. the costs of the projects undertaken were fully funded by the Dutch government. In the national implementation phase of the Dutch scheme, vouchers were offered on the basis of a 50% SME contribution.

This change in the financial aspect of the Dutch scheme was accompanied by a change in the way in which vouchers were administered. In the pilot phase this was done using fixed application dates on which vouchers were allocated. It was realised that in the move to the mainstream scheme this would place too great a load on the administration and delivery system around the times of the application dates and so this system was replaced by a rolling approval process. This helped to even out demand and reduce pressure on the administration system throughout the year.

Many voucher schemes have typically started with a sub-national pilot scheme. For instance, the Dutch innovation voucher scheme also had its origins in sub-national pilot schemes such as: “research vouchers” in the province of Limburg (1997-1999), “Southern Netherlands knowledge vouchers” (2001-2004), “inter-regional vouchers” (2001-2002), “cross-border knowledge vouchers” (2002-2004) and “Interreg mid-Benelux area innovation vouchers” (2005-2007) (Cornet, van der Steeg, and Vroomen, 2007).

A 'light-touch' application process

Much of the appeal of voucher schemes for participating companies lies in their simplicity and low entry barriers. These programmes are characterised by light-touch application and selection procedures, compared with traditional grant programmes. Maintaining a light-touch administration "from the selection of the beneficiaries to the reporting requirements once the voucher has been used" is important for the success of an innovation voucher scheme (OECD, 2010). Such light-touch and rapid application procedures are particularly appealing to SMEs where managerial resources are often very constrained. The best practice example here is the Flemish scheme, which has a one page application form and an aim to approve applications in just one day. Other examples are the Slovenian 'Consulting Voucher' scheme (5 page application and approval within two days) and the French voucher scheme (2 page application and approval in 10 days). Typically applications are 4-5 pages and take 2-3 weeks to be approved (DG Entry Unit D2, 2009a).

Application processes for voucher schemes differ; some schemes use an online application procedure (UK West Midlands, Netherlands) and some adopt a more 'hands-on' approach. The latter approach – starting with SMEs visiting a local business centre – was central to the Slovenian SME voucher.

In most cases, vouchers are attributed on a 'first come, first served' basis, provided applicants satisfy basic qualification criteria in terms of size, location and ownership. Eligible companies then commission their business service or knowledge providers to carry out the assignment. When the assignment is completed, enterprises pay the researchers or consultants with their vouchers who then redeem them at the voucher administering agency.

Matching SMEs with service providers

Efficient brokering – matching SMEs with appropriate knowledge or service providers – has been a key factor in successful voucher schemes. However, the extent of the brokering agency's involvement varies across programmes, depending on the model adopted. In most cases administering agencies have provided some support to SMEs in identifying appropriate knowledge or service providers. In some cases, such as the Dutch innovation voucher scheme, this has largely been passive, involving simply the compilation and publication of a list of eligible knowledge providers. Voucher recipients have then been responsible for identifying their own partner from the list. A similar approach is adopted in the Irish innovation voucher scheme and the UK Creative Credits programme, where an on-line gallery of Creative Companies was created from which SMEs were able to identify their service provider. These approaches might be considered as 'light-touch' brokerage.

In the UK West Midlands scheme an alternative approach based on a comprehensive and resource-intensive brokering model was adopted. Indeed, the scheme relies on a fairly large team, four full-time staff, playing an active role in encouraging SMEs to define their projects and then actively engaging with SMEs in matching them with knowledge providers. The UK Northwest scheme is administered through a more moderate brokering model. Two-full time advisors have been in charge of the brokering and matching tasks supporting SMEs to develop project proposals but playing a less active role in developing the SME-service provider relationship.

The appropriate type of brokerage system depends to some extent on the nature of the voucher scheme, the experience of SMEs in the country or region in working with external partners and the nature of the supply side. In a country where SMEs may not have the capacities and resources to directly approach adequate service providers, a fairly comprehensive brokering model may be needed particularly during the pilot phase to help SMEs access information to select the adequate service providers.

Fraud Mitigation Measures

Voucher schemes may be prone to the risk of fraud due to their light-touch administration and simple application procedures. However, there is little evidence to suggest that the risk of fraud in a voucher scheme is higher compared to other possible forms of SME support. The challenge is to preserve the quick response time and accessibility of such schemes and simultaneously mitigate the risk of collusive behaviour on behalf of SMEs, consultancy service providers and the implementing agency.

On-going monitoring of the scheme by the implementing agency should provide that these processes are maintained and work effectively, while helping to detect unusual patterns of behaviour in either the application phase or awarding of vouchers. A practice that worked well in the Slovenian SME voucher scheme was custom-made software that was developed for monitoring the progress and budgetary aspects of the scheme.

Case study: Slovenia

In the beginning of the 1990s Slovenia experienced a significant decrease in the number of SMEs and after 1994, in the number of start-ups. Following developments in other countries in 2000, the Slovenian government began developing an SME Voucher System for Consultancy and Training Services based on the practices of the Small Business Administration in the US, and voucher schemes in Cataluña (Spain), Austria and the UK.

Full-scale implementation of the scheme began in 2001 with a one-year pilot project with the following objectives (InnoPolicy Trend Chart, 2009):

- To address the low demand for consultancy services;
- To encourage entrepreneurship, self-employment and rural development;
- To maintain and increase the existing number of SMEs, and thus positively impact employment opportunities; and
- To stimulate eBusiness.

The scheme was administered by JAPTI, the Public Agency for Entrepreneurship and Foreign Investment, and delivered through the national network of business one-stop shops called, Vse na enem mestu (VEM) in Slovenian. JAPTI aims “to foster entrepreneurial spirit and innovation, help companies venture into international markets and promote the global business image of Slovenia” (Centre for International Cooperation and Development (CMSR), 2011,). VEM points used existing business centres that allowed direct access and information dissemination to SMEs through personnel training and an extensive door-to-door promotional approach. In 2001, the pilot project operated via two one-stop-shop VEM points. In 2002, the number of one-stop-shops engaged in the scheme increased to 35 when the scheme was expanded from a pilot initiative to a full-scale voucher scheme.

SMEs interested in the scheme contacted VEM points who then conducted diagnosis interviews with the SME to identify the area of consultancy needs and assessed the SME’s eligibility for a voucher. VEM points decided upon the SME’s eligibility for the voucher scheme and signed the contract on behalf of JAPTI. The issued voucher specified the number of hours of consulting services to be provided and the consultant’s name. The SMEs paid the service provider upon the satisfactory provision of the service and redeemed the voucher from JAPTI.

Eligibility criteria

Consistent with the policy objectives stated above, the scheme focused on three groups of eligible companies: existing SMEs, potential entrepreneurs, and farms. Eligible projects which could be funded through the scheme included marketing, human resources, management, joint venture consulting, internationalisation, production, technology and quality, and environmental consulting.

The SME voucher scheme was restricted to local service providers and excluded foreign service providers. Potential service providers applied on public call and were categorised into advisors and consultants (generalists and specialists). Specialist consultants had business expertise in one or more specific business areas.

Throughout the early stages of the scheme, JAPTI was actively involved in brokering the relationship between service providers and SMEs. JAPTI accredited generalist consultants via examinations custom-designed in 2002, and approved specialists upon their fulfilment of certain criteria (references, diplomas etc).

This led to some difficulties as many SMEs perceived JAPTI as guaranteeing the quality of the service provided. In situations where SMEs were dissatisfied with the level of service, SMEs would direct their complaints to JAPTI and not to the actual consultant. At the same time, monitoring of the scheme revealed that SMEs were not fulfilling their terms of reference (TORs) or completing reports after interacting with a service consultancy provider.

These factors led JAPTI to change its approach by encouraging SMEs to take responsibility for their choices. As of 2003-2004, JAPTI stopped accrediting service providers and started issuing virtual catalogues with a list of generalist consultants and specialists from which the SME had to select based on its own judgment.

From SME vouchers to innovation vouchers

Voucher sizes ranged from EUR 2,500 – 4,000 for SMEs and EUR 1,500 for potential entrepreneurs (Centre of International Relations, 2010). Under the 2001-2009 SME Voucher System for Consultancy and Training Services, 30,000 vouchers worth EUR 15 million were distributed to 9,000 beneficiary SMEs. 900 consultant service providers were engaged in the scheme. Overall, overhead costs represented 25% of the total monetary value of vouchers issued during 2001-2009.

In 2009 the portfolio of vouchers offered in Slovenia was reformed to focus more specifically on innovation. This scheme started with a pilot project in 2009 and subsequently replaced the previous 2001-2009 SME scheme in 2010. The objective of the Innovation Voucher Scheme is to provide support for costs of applied industrial research and innovation projects with the final aim of filing a patent, model or brand (trademark) protection. The scheme targets micro and small enterprises given their slow innovation progress.

Lessons Learned

A key lesson learned from the Slovenia case study is the potential value of an SME-consultancy scheme, as opposed to an innovation voucher scheme, in supporting SME competitiveness, innovation and export capabilities during the relatively early stages of a transition process. Take-up of the SME-consultancy scheme was strong over the period 2001-2009, and paved the way for the subsequent development of a more focused innovation voucher scheme.

The case study also highlighted some of the key operational considerations for the design of a voucher scheme:

- The importance of advertising the programme to ensure that SMEs are aware of it;

- The importance of short application procedures and rapid approval processes to minimise the administrative burden of the scheme;

- The need to take measures to discourage fraud. Collusive behaviour on behalf of business service providers and SMEs has been identified in the late stages of the Slovenian SME voucher schemes. Thus, sufficient administrative resources have to be allocated to implement preventative and monitoring measures to avoid fraud and collusive agreements. Establishing clear and tangible TORs between SMEs and consultants, some light-touch final reporting or requirements and limiting the vouchers to one per SME can also help mitigating the risk of fraud;

- The need to leverage business associations and other SME-networks to promote the scheme to minimise administrative costs;

- The need to promote the scheme locally when targeting rural areas (e.g. door-to-door strategies) to ensure that all SMEs can access the scheme;

- The need to consider an ex-post payment structure – i.e. refunding the payment once an SME has paid a consultancy provider to encourage SMEs to proactively engage with the service provider;

- The need to set and manage the expectations of all the key participants of the voucher scheme, particularly when the number of vouchers is likely to be small, to avoid dissatisfaction of applicants.

2. FEASIBILITY ASSESSMENT

This section assesses the feasibility of a voucher scheme in Montenegro. The section begins by describing the current economic conditions in the country and is followed by an overview of the framework in place to support SMEs. The section concludes with a synopsis of the main results from a survey of Montenegrin SMEs and discusses alternative policy measures to voucher schemes.

Economic climate in Montenegro

While the global financial crisis began in the middle of 2007 its consequences began to be felt in Montenegro in the last quarter of 2008. By the end of 2009, the crisis had led to declines in several macro-economic indicators, above all in the levels of GDP, industrial productivity, imports and exports and net FDI flows (see Table 1). The country had sizeable trade deficits between 2006 and 2010, reaching a peak of more than 60% of GDP in 2008.

Table 1. Macroeconomic indicators during the period 2006-2010, Montenegro

	2006	2007	2008	2009	2010[1]
GDP (mil €)[2]	2,149	2,680.5	3,085.6	2.981.0	3,025.0
Inflation[3]	2.8%	7.7%	7.2%	1.5	0.3
Industrial output (annual growth rate) (%)	1.0%	0.1%	-2.0%	-32.2%	16.5
Bank loans to private enterprises (mil €)	471.3	1,364.4	1,657.0	1,357.9	1,262.4
Effective interest rates on loans (%) [4]	9.94	9.09	9.40	9.38	9.60
End-of-year employment	150,746	159,223	169,160	169,859	174,376
End-of-year unemployment	38,876	31,469	28,366	30,169	31,016
Import of goods by sector (mil €)	1,497.7	2,090.0	2,549.7	1,668.0	1,235.3
Export of goods by sector (mil €)	648.3	515.8	467.4	296.3	248.9
Trade balance (mil €)	-849.3	-1,574.2	-2,082.3	-1,371.7	-986.4
Foreign Direct Investments - Net (mil €)	466.7	557.7	551.7	919.0	397.9

Source: Central Bank of Montenegro, Government of Montenegro and SMEDD, Montenegro (2010)

[1] Data for September 2010 - Consumer Price Index (CPI), loans to private sector, effective interest rates, number of employed and unemployed persons. Data for period between January-September for industrial output/result of four indicators Balance of Payment

[2] Source: Monstat

[3] Inflation is measured by using the cost of living index up until 2009; 2009 and 2010 with the consumer price index

[4] Beginning in 2008 a new methodology is used for calculating interest rates

SME support in Montenegro

As noted in the Strategy for Development of SMEs 2011-2015 of the Directorate for Development of SMEs (SMEDD), SMEs contributed 62% of total employment and 31% of total exports for the period 2006-2009. The Montenegrin government recognises the SME sector as an important pillar of the Montenegrin economy within the process of economic transition and accession to the EU.

As of 2009, 78% of all SMEs were micro companies, nearly 10% were small companies, and 9% crafts. The largest number of SMEs were concentrated in the wholesale, retail and repair (44%) sectors, followed by real estate and renting (16%), while industrial processing came third with only 10% (Government of Montenegro, 2011).

Several institutions provide support for SMEs. In the Montenegrin government, the Ministry of Economy and the Department for Development of Industry and Entrepreneurship are responsible for designing policies relevant for entrepreneurship and SMEs. Within SMEDD, a network of eleven regional and local business centres has been established to provide information, consulting, business services and training tailored to the needs of SMEs. Out of the eleven business centres, nine are operational: Rožaje (three employees), Berane (four employees), Bijelo Polje (three employees), Plav (two employees), Cetinje (two employees), Bar (one employee), Zabajak (one employee), and Nikšić (one employee). In the town of Kolašin the centre is operated by one volunteer. The existing network does not cover the entire territory of Montenegro (see Figure 1); rather priority is given to less developed regions in the north (SMEDD of Montenegro, 2010). The EU-financed BESRE programme to train the staff members of business centres and provide them with the skills required to assist SMEs identified a lack of capacity, poor coverage, and a lack of coordination on behalf of business centres.

Montenegro has been making efforts to provide support for its SME sector. The Investment and Development Fund of Montenegro is a key development finance institution which finances projects in the SME sector. The Employment Bureau of Montenegro provides support through active employment policy, direct financial support and certain types of consulting services and training targeted for potential entrepreneurs. A number of other institutions are also involved in advocating for SME interests including the Chamber of Commerce of Montenegro and Montenegro Business Alliance.

Institutions from the public and private sector as well as international organisations in Montenegro have contributed to creating SME policies in the country. However, SME policy is often characterised by a lack of committed resources and institutional co-ordination.

Figure 1. Geographical distribution of business centres in Montenegro, 2011

Source: Map of Montenegro, 2011. http://dev.the-serveur.com/ocde/. The map has been adapted for descriptive purposes: encircled areas represent the location of business centres in Montenegro as of 2011..

Increasing the innovation and export performance of SMEs

SME Policy in Montenegro is developed under the framework of the Strategy for Development of SMEs 2011-2015 (hereinafter "the Strategy") developed by the SMEDD in 2010 as a continuation of the previous 2007-2010 strategy. The strategy recognises that future economic growth in Montenegro depends significantly on a competitive SME sector that innovates. The Framework Action Plan, an integral component of the strategy, specifies the following targets for 2015:

- A 25% increase in the number of SMEs;
- A 17% increase in the number of employees within SMEs;
- Increase of SMEs contribution to 35% of total exports;
- SMEs accounting for a 50% share of GDP, total investments, turnover, profit and gross added value.

Policies and programmes to support SME competitiveness and innovation are needed in Montenegro, especially with a focus on improving export performance. The latter is recognised as a national priority in the Strategy for Development of SMEs 2011-2015 (SMEDD of Montenegro, 2010) and could be improved by actions to help SMEs comply with standards and norms applicable in international markets such as ISO standards (SMEDD of Montenegro, 2010).

Encouraging SMEs to use business service providers

SMEs in Montenegro tend not to interact with service providers. According to the OECD survey on export-oriented SMEs, almost 70% of SMEs have never used the services of a consultant. In addition, only 10% of respondents said that local consultants and trainers could make a significant contribution to their business. There is a perception by many in the SME community that external services would not contribute to improving their performance. The Strategic Plan 2008-2010, and the EBRD report on Montenegro under the Turn Around Management (TAM) and Business Advisory Services (BAS) Programmes, identified SMEs as "the group with the least experience in business advisory services and lowest level of business sophistication." (EBRD, 2010) Additionally, research conducted by the SMEDD and the German Organisation for Technical Cooperation in 2010 reports that SMEs have "poor cooperation with the agencies and institutions which support business and other similar organisations". The research identified "the need for different forms of knowledge and skills acquisition for managers and employees" (Wintjes, 2009).

How can a voucher scheme help?

Given the need for improving SME performance, and especially with respect to export activities, the SMEDD took a decision in March 2011 to focus the development of a voucher scheme on export-oriented SMEs. A voucher scheme supporting SME development would complement existing policy initiatives by:

- Encouraging the development of consultancy services for SMEs;
- Developing an innovation culture within enterprises;
- Increasing the availability of financial resources for innovation activity;

Addressing SME needs

On the basis of SMEDDs decision to focus the voucher scheme on export-oriented SMEs, the OECD IC surveyed 150 export-oriented SMEs in Montenegro between May and July 2011 to identify their development needs. The survey was targeted at senior managers and executives in four broadly defined sectors: manufacturing, construction, tourism and trade. Exporting firms in each sector were identified from the Montenegro SME Business Directory and the TAM/BAS Programme in Montenegro. The survey and its results are described in detail in Annex 1 of this paper.

The results of the survey show that firms perceive an absence of government support to be amongst the largets barriers to their growth and expansion. While this could suggest that the SME community would welcome a voucher programme, expectations would need to be managed about the scale of the scheme, the number of vouchers and other elements of design.

Results from the survey further highlight that current levels of interaction between SMEs and consultants/trainers and universities are low, with only a small proportion of firms having previously worked with external consultants or trainers. The results further highlight that for many SMEs, relationships with external consultants or trainers supported by a voucher programme will be new.

An important finding from the survey was the identification of internal weaknesses by Montenegrin SMEs, these included: marketing, sales, finance and business planning. Product and service development were not identified. To illustrate, over half of firms (54%) stated they would like to develop their sales and marketing capabilities while more than 40% of firms emphasised their need for improved financial management and control (see Annex 1). A third of firms also indicated that they would be keen to obtain external support to help develop their sales and marketing capabilities. Given these results, an argument can be made to design policies to enable export-oriented SMEs to improve their managerial capabilities.

The survey also indicates that SMEs have doubts about the capacity of local consultants, trainers and universities to provide effective support. This necessitates that some degree of quality assurance be built into a voucher scheme.

Capacity of the local consulting market

The local consultancy market in Montenegro is currently characterised by the absence of: 1) an established accreditation system for consultancy service providers; and, 2) quality control over services provided. The largest official database of consultants in Montenegro is developed and maintained under the BAS programme financed by the EBRD since 2002. The 2011 list includes circa 140 companies. A profile of consultancy service providers included in the 2010-2011 BAS list is outlined below:

Table 2. Summary of the 2010-2011 BAS list

Type of consultancy service	Number of providers
Computerised Financial/ Management Information Systems	43
Development Planning	7
Engineering Studies	2
Feasibility Studies	14
Improve Environment Management	1
Market Analysis and Planning	35
Other	1
Reorganising/ Restructuring	13
To Introduce Quality Management and Certification	21
Total	137

A smaller database can be found under the 2008-2010 SEE Consultancy Network Project in Montenegro, implemented by the Deutsche Gesellschaft für Technische Zusammenarbeit (GIZ) in collaboration with the SMEDD in 2009. It aims "to develop a regional market for export promotion consulting services for local business advisers on the one hand; on the other hand it intends to improve the regional availability of consulting services for export oriented companies" (SEE Consultancy Network, 2011). One of the project's activities is "to build an internet platform containing a database of available consultants for export oriented firms to make the search for local consultants easier for companies in SEE" (SEE Consultancy Network, 2011). Nine regional export promotion consultants are included in the 2010 database for Montenegro. However, the Montenegrin service providers listed on this website did not go through an accreditation process before being published on the portal.

Twenty-six international consultancy service providers are registered in Montenegro, with the majority of them operating from Belgrade (Serbia) and supported by local consultants.

Alternatives to a SME voucher

There are policy alternatives to a voucher scheme. These include, for example, the direct funding of training programmes and/or the public provision of consultancy services through the business centres. A tax deduction focused on R&D or international marketing activities could also be an alternative.

Training programmes would have the advantage of allowing for economies of scale, as a number of firms could be trained at the same time while facilitating networking. The advantage of a consultancy voucher scheme is that it allows firms to access consultancy or training which meets their specific needs, i.e., it is demand rather than supply led.

Provision of public consultancy or advisory services is a relatively common measure internationally and similar services are already available to some extent in Montenegro. Extending these to provide more substantial support to a small group of firms is a possible alternative to the voucher scheme. Depending on how it is organised, such support could be effectively ‘demand-led’. However, it is unlikely to have the benefit of stimulating the supply-side of private sector consultants and trainers, which is one of the identified benefits of voucher schemes.

Tax deduction schemes also have their advantages. The key benefit of such an approach is its efficiency in administrative terms, with tax advantages being targeted at firms either exporting or with the potential to export. Such an approach also has the advantage of being non-distortionary, as it has no direct effect on the pricing of consultancy services. One problem associated with this policy measure is targeting support towards firms which particularly need it. Additionally, the design of a tax deduction scheme does not allow for supply-side stimulus, such as building and strengthening the local market of consultancy service providers and local business centres.

Each of these possible interventions has potential benefits. The available evaluation evidence – albeit rather limited to short-term impacts – suggests that voucher schemes achieve high levels of additionality in providing demand-led consultancy and training support to relevant firms, while also having positive supply-side stimulus effects. Other forms of support mechanism lack some or all of these benefits.

3. FRAMEWORK FOR A MONTENEGRIN SME VOUCHER SCHEME

The results from the SME needs survey discussed in section two of this report reveal that internal management capabilities are seen as a problematic area for Montenegrin SMEs. These same SMEs are also prepared to seek external support to address these deficiencies. These results indicate that a broad-based voucher scheme focussed on consultancy services would be more relevant for Montenegrin SMEs than a scheme targeting product or service innovation. The latter could be explored in a later stage as was illustrated by the Slovenian case study in section one.

This section outlines the intervention logic underpinning a pilot SME voucher scheme in Montenegro. The scheme would facilitate access to external training and consultancy services in order to improve management and marketing capabilities for export-oriented SMEs. The objectives of the scheme would be to:

- strengthen and develop the managerial and marketing capabilities of export-oriented SMEs in Montenegro;
- increase the use of external training and/or consultancy services by SMEs in Montenegro; and,
- improve the competitiveness of exporting SMEs and increase their innovation potential.

These objectives are consistent with those adopted in other international voucher schemes (e.g., Netherlands and Slovenia) outlined earlier in this report.

Rationale and intervention logic model

Good practice suggests that the voucher scheme should have a sound rationale and credible intervention logic (Donaldson and Gooler, 2003). The intervention logic model outlines the justification for public intervention, the scheme's objectives, the process of implementation, and the scheme's outputs and intended longer-term outcomes. The intervention logic should be based on clear assumptions by which the intervention is expected to achieve its objectives. One important assumption in this case is that SMEs will apply for vouchers in order to have access to services providers and consultants.

The intervention logic for the Montenegrin voucher scheme is summarised in table 3 below. The expected outputs of the voucher scheme include more SME interaction with external knowledge and consultancy service providers than in the absence of the scheme (i.e., this is the 'input additionality' of the project). In time, this should increase the innovation and export performance of SMEs (i.e., the 'output additionality'). The intervention logic model however makes clear that such outcomes will be contingent on other factors influencing firms' behaviour, including conditions present in the market.

Table 3. Voucher scheme in Montenegro- a logic model

Rationale	Increase SMEs' contribution to exports in Montenegro; Improve management capabilities and innovation in SMEs; and Raise the use of external consultants and trainers by SMEs;
Inputs	Funding for vouchers and for the scheme more generally; and Support from stakeholders: Directorate for SMEs, Employers' Federation, and business associations
Assumptions: Vouchers will stimulate new linkages and capability development	
Risks: Fraud	
Outputs	Partnering projects between SMEs and external knowledge providers; Increased awareness by SMEs of the potential of external knowledge providers; and Increased SME capability in managing and developing external relationships;
Assumptions: The new linkages will increase the innovation and export capacities of SMEs as well as the long term use of external service providers	
Contingency factors which may influence outcomes: SMEs' access to finance, growth in export markets (particularly the EU), and fraud	
Outcomes	Greater innovation and strengthened managerial capabilities within Montenegrin SMEs; Increased willingness to make use of external training and/or consultancy services; and Increased export performance;

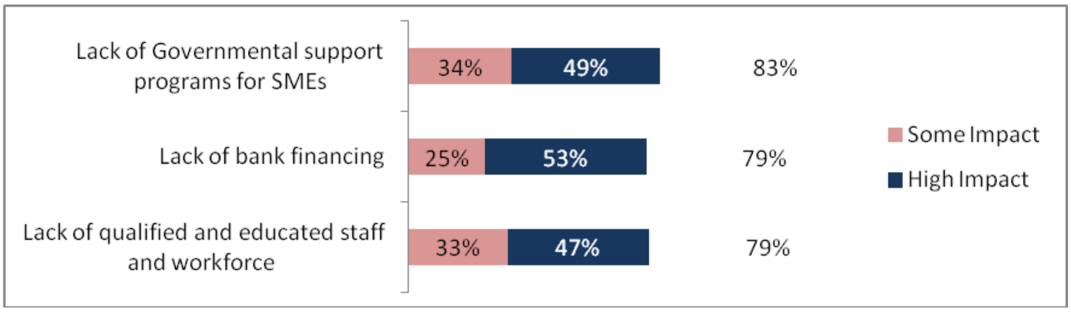
Potential risk factors and contingencies

Risk and contingent factors do exist, however, and are the focus of this section. Two main sets of risk factors are considered: environmental risks, linked to the wider business environment in Montenegro, and implementation risks, linked to the implementation of the scheme.

Environmental risks or contingencies influence the outputs and particularly the longer term outcomes of specific schemes. Cyclical factors, market volatility or other market uncertainties may undermine the scheme regardless of the effectiveness of the policy intervention. In the case of Montenegro, one contingency factor is growth in external demand by its trading partners which will affect Montenegrin companies' abilities to increase their exports.

Implementation risks are also inherent to voucher schemes given their light touch administration. This has become a problem in some countries where the integrity of voucher schemes was undermined by misuse as a result of collusion between consultants and SMEs. A number of safeguards can be put in place to minimise incidents of fraud. These safeguards are elaborated in greater detail in section four of this paper.

Figure 2. External barriers to growth and development perceived by export-oriented SMEs



Source: The OECD Evaluation of Survey Results, Survey on Export-Oriented SMEs in Montenegro, May-July 2011

An additional type of implementation risk is the perception held by Montenegrin SMEs on efforts by government to assist them. Figure 2 shows the percentage of firms surveyed by the OECD IC that indicated some external barriers as having either "some impact" or a "high impact" on their growth and development. These factors might limit the impact of an SME or innovation voucher scheme. High impact factors are the lack of governmental support for SMEs, the lack of bank financing, and the lack of qualified and educated staff. Each of these has implications for the potential outcomes of any voucher scheme for SMEs in Montenegro:

Lack of governmental support for SMEs is likely to increase the profile of any new voucher scheme, increasing potential demand and likely raising the expectations of the business community. Clarity in terms of the availability and size of vouchers and eligibility conditions will be important in managing expectations by SMEs.

Lack of bank financing may limit the capabilities of firms to access funding for investment and expansion. This in turn may limit the growth and development impacts of any voucher scheme. Given a more supportive economic climate the expected outcomes might be greater. Lack of funding may also limit firms' willingness to engage in future collaboration with external partners if subsidies are not available. This is likely to restrict the longer-term outcomes of any voucher initiative.

Moving beyond SME vouchers

The results from the SME Needs Survey reported in Annex 1 point to the value of a broad-based SME voucher scheme to support management and innovative development in SMEs. It also suggested a smaller but yet evident demand for services supporting innovation related to new products and services. This suggests that it would potentially be beneficial to broaden the range of voucher schemes available in Montenegro to also include an innovation voucher scheme.

This type of development – broadening the range of voucher schemes on offer following a pilot phase – would be consistent with international experience that has often followed this path. For instance, the

Flemish voucher scheme includes five different voucher types which share an application process but focus on different functional areas and have different financial structures (Vandorpe, 2011). It is difficult at this point to suggest whether a similar range of voucher types is applicable in Montenegro, but the Flemish experience suggests this type of development might be part of any expanded scheme in a later period.

Self-employment vouchers

As part of the implementation plan it may also be desirable to think about other ways in which the 'voucher' concept can be used beyond the SME community. In Slovenia, alongside the SME voucher worth EUR 2,500, a smaller voucher worth EUR 1,500 was also offered targeted at potential entrepreneurs and those starting a business. Given that Montenegro faces high levels of unemployment and low business start-up rates, this type of voucher may well be worth considering in Montenegro. Differences in the client base, however, mean that self-employment vouchers would need to be distributed differently in comparison with the SME vouchers. This would also have implications with employment voucher.

4. RECOMMENDATIONS

This section provides the main recommendations for an SME voucher scheme in Montenegro. The recommendations take into account international good practices identified in section one, the local context described in section two, and the intervention logic in section three.

Voucher size

For the Montenegrin voucher scheme, a range of values were considered with the aim of providing a subsidy sufficiently attractive to allow firms to complete a substantive project while maximising the number of potential beneficiary firms. The possibility of multiple voucher sizes was also considered but ruled out, at least for the pilot programme, given the relatively small number of vouchers which are likely to be available. An amount of EUR 4,000 is considered necessary to support an at least 15-day consultancy project in Montenegro.

A limit of one voucher per SME and one voucher per consultancy service provider should be considered. This limitation would act as a preventative measure to mitigate the risk of collusive behaviour between SMEs and consultancy service providers.

Private sector contribution

When determining the contribution of the private sector in the voucher scheme, different options were considered, based on the international practices above. Possibilities included no SME contribution, a 25% contribution and the standard 50% contribution. Experience with Montenegrin firms, however, suggested that the scheme was likely to be less appealing if the contribution rate was set at 50% rather than 25%. A 25% contribution is better than no contribution at all because it reduces the incentives for fraud. For the pilot scheme, therefore, a minimum 25% contribution was preferred.

For the pilot scheme, the SME voucher should have a face value of EUR 3,000. This could be used to fund part of an externally funded project costing EUR 4,000 or more.

Beneficiary companies

In Montenegro, the Strategy for Development of SMEs 2011-2015 identified export development and strengthening the competitiveness of SMEs as national development priorities. Thus, for the pilot project the scheme should:

- Target SMEs that are properly legally constituted;

- Do not have any outstanding debt to the government;

- Have a record of exporting with at least one year of operations in order to target exporting SMEs; and

- Have not entered into any commitments, prior to receiving the voucher, with the knowledge provider that will carry out the project in order to create additionality.

Eligible projects

A lesson to be drawn from the international experience described is the importance of clearly defining the types of projects to be supported by the scheme. These should be linked to the scheme's objectives and also take into account other forms of support available locally.

Therefore, in line with the scheme's objective of improving managerial capacities in SMEs, eligible projects under the Montenegrin voucher scheme should relate to developing management skills, implementing new and improved management systems and procedures, or developing new marketing strategies and approaches. Project costs may not include website design or development, the purchase of software, equipment or related support contracts.

During the implementation phase, the government of Montenegro should consider publishing a catalogue of specific "service packages at a unit price" (Box 2) applied in the context of creative credits in the Manchester Scheme. Service packages could be defined based on the services demanded by SMEs during the pilot phase and with a focus on fostering export activities.

Box 2. Service packages for the implementation phase

The concept of service packages relates to asking potential service providers to formulate service packages for a "unit price of the voucher". These service packages are subsequently published in a catalogue and their providers become eligible under the voucher scheme.

This approach could address the un-transparency of the consultancy market and the reservations of the local SMEs towards the consultants' skills. It could notably reduce opportunities for fraud since specific service packages are not as easily recyclable as services with a general description. This limits the scope of collusive agreements on behalf of service providers. The approach also stimulates the emergence of a structured supply, enhances competition between service suppliers, and facilitates choice by SMEs.

In addition, in order to focus the funding for the scheme on the external costs for SMEs rather than their internal costs associated with a project, the only eligible costs for the scheme should be the external fees paid to consultants or trainers exclusive of any VAT or other taxes. SMEs will therefore be liable for any VAT on the value of the consultancy or training contract as part of the normal invoicing process. Vouchers should also not be used to offset existing staff costs related to a project or to pay for projects which have started before the award of the voucher. Vouchers may not be used for the payment of consultants that provide support in the completion of application/claim forms or management fees.

The tax authorities in Montenegro confirmed that the tax treatment of voucher-funded services is identical to that of services purchased directly by an SME. The implication is that services provided to an SME as part of the SME voucher scheme will be liable for VAT in line with existing legislation.

Business service providers and knowledge service providers

Some form of quality assurance is necessary as part of the voucher scheme. The SME Development Needs Survey (Annex 1) highlighted small firms' lack of confidence in the quality of some local consultants and trainers in Montenegro. This is a key issue in the design of the scheme because it will affect the reputation of the scheme in providing quality support for firms and the effective use of public finance. The accreditation of consultants and trainers also provides some protection against the abuse of the scheme by unregistered service providers.

Box 3. BAS Programme

In 2002 the EBRD initiated TAM/BAS Programmes in Montenegro aimed at supporting the restructuring of the Montenegrin economy implemented in three cycles of two years with funding disbursement of circa EUR four million.

The TAM/BAS Programmes were "complementary programmes which develop[ed] the micro, small and medium sized enterprise (MSME) sectors through a multi-tiered approach and thus, "promote[d] transition in the countries of EBRD operation" (EBRD, 2007). An important element of the BAS programmes was capacity building of local consultancy service providers through internally approved accreditation procedures and quality control of consultancy service providers.

The BAS programme had the dual objective of acting on both the supply and demand sides. It aimed to address demand by educating MSMEs about the benefits of consulting services and financially supporting MSMEs' employment of external consultants and it aimed to increase the supply and quality of existing local consultancy advisory services by engaging TAM advisors and EBRD staff.

In Montenegro, most of the BAS projects focused on improving market performance, management effectiveness, quality management, certification and marketing. Approximately 93% of consultants mobilised for the BAS projects were of local origin. In 2012 the TAM/BAS programmes plan to continue their operations in Montenegro with a revised target: "promoting measures to increase energy efficiency in production and reduce environmental pollution". (EBRD, 2010)

As mentioned earlier in the study, there are no accreditation procedures for business service providers and consultants and trainers in Montenegro.

However, the BAS programme (Box 3) in Montenegro registers and qualifies providers of consultancy services suitable for BAS projects in the BAS Management Information System. Consultants must satisfy several criteria to qualify for a BAS assignment such as having relevant experience, capacity, resources and general competence. The list of accredited service providers was initially created by encouraging consultancy service providers to apply to BAS programmes upon satisfaction of advisory needs via local newspapers and word-of-mouth. The list is updated annually in September-October.

Through the BAS programme, local consultants are evaluated for specific advisory service types and sectors of competence using the following criteria:

- Administrative requirements: company profile, copy of the registration certificate with state register, certificate of ownership (extract from charter and/or memorandum of establishment), annual financial statements for at least two previous years, narrative on specialisation and quotation of fees by advisory service type (in EUR/business day);

- Client work and references: description of undertaken projects (within the framework of specialisation) in the last 2-3 years, including references (these references are not checked with SMEs). The focus is placed on the quality delivery of the project, for example no consultant can be eligible for a BAS project if the quality of the previous assignment was not proved satisfactory for the enterprise and BAS programme; and

- Profiles of personnel: resumes and interview of all consultants. The interviews are held with the manager and the main consultant.

Given the absence of accreditation of business service providers in Montenegro and the limited resources available for the pilot voucher scheme, the outcome of the BAS programme in terms of accreditation and quality control of local consultants is relevant to and can be fruitfully used in the current pilot project. Using this accreditation would address the strong need for quality assurance identified in the survey and mitigate the risk of fraud on behalf of consultancy providers. It is therefore recommended that eligible services providers should be the ones registered on the TAM/BAS list of approved consultants or international locally registered company, or both.

Maintaining an on on-line list of eligible service providers on the website of the SMEDD in an accessible format would assist SMEs choosing appropriate consultants or trainers. The SMEDD will have to update the information: setting criteria for inclusion, adding new providers who satisfy the criteria, removing the ones who do not, and updating the information as needed. In addition, a quality control component should be built in, either by a regular survey on the level of satisfaction of SMEs with regards to the services rendered or by allowing SMEs to post their assessment directly on the website.

The 2011 TAM/BAS list of consultants in Montenegro numbers around 140 organisations and individuals. While this number is sufficient for a pilot SME voucher programme it might be more limiting during the implementation phase.

It is therefore recommended to reconsider the form of accreditation of consultants and trainers prior to the implementation phase. At the implementation phase it may be appropriate to open the TAM/BAS list to other eligible consultancy service providers following approved accreditation procedures. It could also be envisaged to extend the scheme to public knowledge providers such as universities and research institutions. In addition, the directorate could consider whether to make external (i.e. non-Montenegrin) consultants and trainers eligible in the implementation phase. Around half of all international voucher schemes do allow foreign service. However, all subsequent reconsiderations for the Implementation Phase should have the strategic aim to foster the local consultancy market.

The pilot and the implementation phase

Implementing a pilot project first, in line with the international best practice will help build capacity and learning for officials tasked to lead the implementation phase. The pilot phase will provide Montenegrin officials with the following:

- An established protocol for delivering SME vouchers to SMEs in Montenegro including appropriate application and approval processes, administration structures and allocation and payment systems;

- Evidence on the potential interest of a voucher scheme to SMEs in Montenegro and the capability of the supply side of knowledge providers to meet the needs of SMEs;

- Evidence on the value of such SME vouchers in increasing management capabilities, exporting and innovation;

- Positive ‘champions’ for the SME voucher scheme in both the SME community and the community of consultants and training organisations in Montenegro;

- A delivery model – proven in Montenegro – which can be extended to other types of voucher activity, such as supporting entry to self-employment or innovation.

- Potential areas for improvement in the design of the scheme.

The Pilot Phase will yield substantial policy learning but will have a limited impact on the export capability of SMEs in Montenegro on its own. In order to achieve such an impact, a significant scaling of the scheme will be required to include a larger proportion of SMEs.

Any such scaling of the SME voucher scheme poses a number of challenges. Among the most important are:

- Ensuring national publicity around the scheme to encourage SME take-up of the measure. This is likely to require both some media and some network based publicity;

- Training for staff in all Business Centres who would be the first point of contact for firms and would need to be able to advise on eligibility and help firms to develop workable project proposals with the potential assistance of EU programmes such as BESRE;

- Ensuring adequate supply of consultancy and training services. This may be feasible using the TAM/BAS list but may also require the accreditation of more consultants and trainers or those with specific skills;

- Ensuring timely and effective administration of the scheme in the face of higher volumes of voucher projects.

It is difficult to accurately assess the potential demand for SME vouchers in Montenegro *ex-ante*, although the results of the business survey help estimate these needs. Overall, the Montenegro SME Business Directory and the TAM/BAS Programme identified a list of around 500 firms with export potential in the manufacturing, construction, tourism and trade sectors. The survey also found that a third of firms had training or consultancy needs and would likely seek external help to address these issues (see Figure A1.6). This suggests a potential demand for an SME voucher from around 170 companies. Other sectors might add to this demand, suggesting strong potential take-up of any expanded scheme. The likelihood of strong take-up of the scheme is also suggested by the perceived lack of other government supports for SMEs in Montenegro and shortages of conventional business finance (see Figure A1.3).

For the Montenegrin scheme this report does not propose restricting the pilot scheme to a limited geographical area given the wide distribution of exporting SMEs across the country, and the small size of the country. The pilot SME voucher project should be operated nationally through the SMEDD.

Attracting SMES through a light-touch application process

A key element of the application and award process is the development of contracts between SMEs and consultancy and training providers. The lack of experience in many Montenegrin SMEs in working with external consultants and trainers is likely to mean that they need substantial guidance in formulating effective terms of reference and contracts with external suppliers (Annex 1). Consultancy and training providers could be identified from the on-line list. SMEs, with the support of the SMEDD, would then identify the most relevant consultant or trainer and be responsible for drawing up an appropriate contract.

Elements of this process are also designed to reduce the risks associated with abuse of the scheme by either consultants or SMEs. In particular, project approval is the responsibility of the Directorate SMEDD. Vouchers are also only paid to the firms after they have paid the consultant or trainer. Along with monitoring of claims, these factors should help to reduce levels of abuse.

Efficient brokering

As was revealed through the analysis of international good practice for brokering, the appropriate type of brokerage system depends on the nature of the voucher scheme and the extent to which SMEs have worked with external partners. In a country where SMEs may not have the capacities and resources to directly approach adequate service providers, as in Montenegro, a comprehensive brokering model is more appropriate. It is therefore recommended that the SMEDD assist the SMEs as described in detail in box 4.

Box 4. Application procedure

Based on the Slovenian example identified in section one, but adapted to the Montenegrin context, the procedure for SMEs could be as follows:

- **Downloading the application form**: The SME hears about the scheme and downloads the application from the website of the SMEDD. The SME contacts and makes an appointment with the SMEDD for assistance in completing the application.
- **Application:** The SME attends the meeting with the SMEDD and together with them completes the application form. The form includes:
- Contact and background details on the business (including export profile)
- Overview of the proposed project and anticipated budget/expenditure
  - Specified project goals and outcomes
- **Approval:** At this point, the team in the SMEDD should be able to assess the eligibility of both the SME itself and the proposed project. If the demand exceeds the supply, the Directorate for Development of SMEs will use a randomised “lottery” process to select the list of projects eligible for vouchers. The “lottery” should be public to increase the transparency and credibility of the process.
- **Issuing the voucher:** The voucher is issued by the SMEDD to the SME, with a deadline for project completion. At the same time, the SMEDD assists the SME in identifying and contacting a group of approved consultants according to the needs outlined by the SME.
- **Consultant/trainer identification and contracting:** The list of consultants and trainers should be provided on the websites of relevant organisations. The SME, with support from the SMEDD, makes the final selection of the consultant or trainer to work with under the voucher scheme and draws up a contract for the project. This should include a short final project report (approximately 2 pages). Shortlisted candidates might be interviewed or random checking might be considered to mitigate the risk of fraudulent collusive agreements. For the implementation phase, when the scope of the voucher scheme would be significantly larger, the website of the SMEDD could be tailored for SMEs to publicly leave feedback on their collaboration with service providers under the voucher scheme. This can be an effective evaluation mechanism if relevant measures are taken to allow access for leaving comments exclusively to the SME that collaborated with a service provider under the voucher scheme and to ensure that the SME leaves comments only on the work provided by the service provider with which it interacted under the voucher scheme.
- **Project work and payment:** The project and final report are completed to the satisfaction of the SME, and the SME pays the consultant or trainer in full. The consultant or trainer provides the firm with a payment receipt.
- **Voucher claim:** The SME then submits the payment receipt to the SMEDD together with its voucher and the EUR 3,000 is reimbursed.

Administrating the scheme

Setting up an appropriate structure to administer the voucher scheme is a critical prerequisite for its implementation and also serves the strategic objective of reforming SMEs' institutional support structures in Montenegro.[5]

Currently, the SME institutional framework has been characterised by a lack of clearly defined responsibilities and coordination between responsible institutions. In addition, evidence from EU programmes in Montenegro such as BESRE has identified a lack of capacity, poor coverage of business centres and a lack of human and financial commitment of the staff of business centres.

Given the lack of capacity, poor coverage, and a lack of coordination and commitment on behalf of business centres, the scheme should be operated through the SMEDD located in Podgorica. SMEDD is responsible for the implementation of SME policy measures and has sufficient capacity and resources to implement a pilot scheme.

Aside from the SMEs and consultants/trainers the main organisation involved in the scheme will therefore be the SMEDD. The SMEDD should manage and monitor the scheme, maintain budgetary responsibility, and perform administrative and operational roles, providing a direct interface with SMEs and consultants/trainers. The role of the Directorate would be similar to that one played by the Slovenian VEM points described in section one.

Fulfilling these responsibilities will require human and financial commitment on behalf of the SMEDD. Past experience has suggested that, during the pilot phase of SME voucher schemes, the administrative and brokering burden can be relatively high as firms and public agencies learn how to operate the new voucher scheme. In the Slovenian scheme, for example, on which the proposed administration process for the pilot scheme is modelled, general administration costs amounted to 25% of the total value of the vouchers awarded over the 2001 to 2009 period.

The following division of administrative responsibilities are suggested for the pilot phase:

- Approximately one month should be allocated for the preparation of the application form template and guidelines to be distributed to SMEs. All documents should be translated into the local language and be made available online on the official website of the SMEDD;

- During the application phase (circa one month), one-two persons should be allocated full time from the SMEDD that would be responsible for conducting interviews and assisting SMEs with the application process;

- During the negotiation phase (circa two months) after the issuance of the vouchers when SMEs would require assistance in selecting consultancy service providers, two persons should be allocated full-time from the SMEDD for providing support to SMEs in identifying and contacting service providers;

- Subsequently, one person should be allocated full-time for approximately 12 months for monitoring, evaluating, and participating in the audit process;

- Throughout the period, one senior person from the SMEDD should be allocated part-time for monitoring the implementation process.

For the implementation phase, where greater numbers of vouchers might be issued, it is recommended to consider involving the full network of Business Centres. This decision should also entail capacity building across the network, potentially in collaboration with specific EU programmes such as BESRE.

Promotion

The SME Needs Survey found that more than half of respondents indicated that weaknesses in management and marketing skills were a crucial barrier to the growth and development of their businesses. This implies that there would be a significant interest in the scheme among Montenegrin SMEs, particularly if they were convinced that the scheme was relatively simple to apply for and that the chances of getting support, and the benefits of the scheme, were relatively high.

The OECD Innovation Policy Handbook suggests the following promotional strategies:

"The availability of vouchers is advertised widely in the press and through the internet; Representative associations, trade bodies and chambers of commerce can be actively involved in the promotion of the instrument by asking them to inform about the existence of the policy tool (i.e. network-based marketing)". (OECD, 2010)

For transparency reasons, the SME voucher scheme should be advertised openly, but past international experience has suggested that equally effective marketing can be done through business networks and representative organisations, as was done in the UK West Midlands and Ireland, and business centres, as was done in the Slovenia.

In Montenegro, the scheme should be promoted by organisations such as the Montenegrin Employers Federation, Chambers, and business associations. In addition, a public call should be advertised to encourage as many SMEs as possible to consider applying.

The SME Directorate suggested the following timeline for promotional activities:

Table 4. Pilot scheme- timeline for promotional activities

Activity	Date	Participants
Presentation of the voucher scheme during the SME week	October 2011	State institutions, SMEs, BSO
Presentation of the feasibility study	October, 18th 2011	SMEDD, Ministry of Economy, Ministry of Science, University Investment and Development Fund of Montenegro, EU, MEF, Employers Union
Network based marketing and media promotion	October- December 2011	
Informing SMEs via e-mail		
Informing SMEs via business centres		
Organise info day, SME fair in Budva		
Presentation of the project in media (TV, newspaper, newsletter)		
Official launch of the pilot voucher scheme	July 2012	
Public call	July 2012	

Marketing material will need to be clear both about the key focus and eligibility criteria for the scheme. Key messages might be:

- The focus of the scheme is on building management and marketing capabilities;
- Targeted SMEs will be those who are export-oriented;
- Size of the voucher and co-financing requirement;
- A simplified application process;

Budget and Deliverables

The budget for the pilot and implementation phases is outlined below:

Table 5. Suggested Budget: Pilot and Implementation Phases

Amounts in EUR	Pilot Phase	Implementation Phase
Voucher cost		
Number of vouchers	50	150*
Cost per unit of voucher	3,000	3,000*
Sub-total voucher cost	150,000	450,000
Administrative cost Promotion cost Central Administration cost Monitoring cost Evaluation costs	25%	20%
Sub-total: administrative cost	45,000	90,000
Training Costs [a]	3,516	TBD
Total costs	**187,500**	**540,000**

*The cost per unit of a voucher of EUR 3,000 for the Implementation Phase is based on the amount suggested for the pilot scheme and is used in this table for illustrative purposes. Based on the evaluation of the pilot phase, the amount can be adjusted if necessary.

**International practices in operating voucher schemes typically find that the administrative costs amount to 25% of the total value of the issued vouchers. For example, in the Slovenian case, overhead costs represented 25% of the EUR 15 mil worth of vouchers issued under the 2001-2009 SME voucher scheme for consultancy and training services.

The Montenegro SME Business Directory, the TAM/BAS Programmes in Montenegro and the results of the survey on export-oriented SMEs identified nearly 500 firms that might have an interest in the SME voucher scheme. These firms are active in the manufacturing, construction, tourism and trade sectors and represent a critical mass of businesses that could participate in a voucher scheme; both in a limited pilot phase and later a full implementation phase.

Monitoring

The pilot phase of the SME voucher scheme will be relatively short (6-9 months) and will target the issuance of approximately 50 vouchers. The limited timing and scope of the scheme point to the need for light-touch monitoring procedures.

The pilot programme offers an important learning opportunity for those involved in the administration of the scheme. Programme monitoring will be one of the key responsibilities of the SMEDD. Key areas of reporting should include:

- SMEs' interactions with the scheme – number of enquiries from interested SMEs, number of consultancy interviews, number of completed applications, etc;
- Consultants and trainers' contacts as part of the scheme;

- Existing contracts – brief narrative assessment of progress to date with each SME-knowledge provider contract, issues arising and likely completion date.

- Random audits should also be performed – in the pilot phase at least 25% of the projects should be audited and exemplary punitive measures applied in case of fraud.

Monitoring would also be necessary at the level of the directorate itself to assess the time taken for project approvals as well as other administrative tasks and budgets. Monitoring information might be compiled into a programme 'dashboard', with key indicators related to programme targets and outputs.

Fraud Mitigation Measures

A key aspect of the monitoring of the scheme both in the pilot and implementation phases will be the avoidance of fraud. The challenge is to preserve the quick response time and accessibility of such schemes and simultaneously mitigate the risk of collusive behaviour on behalf of SMEs, consultancy service providers and the administrators of the scheme. A number of steps are suggested to help avoid fraudulent activity. Monitoring will need to ensure these aspects of the scheme are being maintained. These include:

- Clear eligibility criteria for SMEs, service providers and the type of projects being supported;

- Introducing an SME contribution;

- Limiting one voucher per SME and one voucher per consultancy service provider;

- An application procedure which requires the SME to discuss the problem with staff at the SMEDD who should themselves be alert to the possibility of fraudulent applications;

- Voucher payment procedures which require the firm to sign off on the project and to pay the service provider before being reimbursed. Final documentation for this claim allows for the verification of claims;

- The initial capacity building of designated staff of the SMEDD should include specialized training in fraud prevention, detection and investigation;

- Involvement of independent parties in the monitoring process, such as sub-contracting audits for at least 25% of the projects and/or contracting agencies for ad-hoc studies;

- Developing a credible threat of public prosecution and exclusion from the scheme for parties involved in collusive agreements;

- Making public all cases of dishonest behaviour on behalf of all parties involved in the voucher scheme.

On-going monitoring of the scheme by the Directorate should ensure that these processes are maintained and work effectively, while helping to detect unusual patterns of behaviour in either the application or awarding of vouchers. Examples of such behaviour might be:

- Unusual geographical patterns of voucher applications/awards which do not reflect the geographical spread of potential applicant firms;

- An unusually high number of applications from specific SMEs or specific consultants/trainers which might indicate fraudulent behaviour;

- Non-specific applications or applications linked to the continuation of existing or established consultancy or training relationships. These are more likely to be non-additional than new relationships; and,

- Applications from newly established companies or consultants which pose more risk of fraud than applications from recognised businesses or consulting companies.

It is notable that in the Slovenian SME voucher scheme custom-built monitoring software was developed for monitoring the progress and budgetary aspects of the scheme. This software might also be available for use in Montenegro for the implementation phase.

Evaluation

The pilot phase of the SME voucher programme should be evaluated. As the number of vouchers in the pilot phase is likely to be relatively small, any evaluation results are likely to be anecdotal rather than statistically robust. Nonetheless, some evaluation should be undertaken to understand the value of the scheme, identify any potential changes and identify best practice examples which can be used to publicise the scheme during the implementation phase.

Entrepreneurship policy evaluations take a number of forms, reflected in what have been called the 'six steps' of evaluation (Potter and Storey, 2007), with each step representing an increase in the sophistication of the evaluation method. The idea is that at each 'step' the counterfactual is better defined and therefore the impact or additionality of the policy initiative can be more accurately measured (Potter and Storey, 2007). For the Montenegrin pilot scheme a 'Step 3' evaluation should be possible involving measuring recipients' views of the difference made by the scheme. This is a cost-effective form of evaluation, but relies on the subjective assessments of scheme recipients. Survey work and case studies could be done independently or by the staff members of the SMEDD.

Companies which participated in the voucher scheme could be surveyed following the completion of the pilot phase with a brief questionnaire to identify:

- Whether projects were completed on time and within budget;

- Whether goals were met;

- Whether there have been any or significant improvements in managerial capabilities and

- Whether the companies are more likely to use external training and/or consultancy services in the future.

In addition, to help with subsequent publicity for the implementation phase, a limited number of case studies should be compiled from the pilot programme in order to illustrate best practice. These could be used as publicity for the scheme during the implementation phase.

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ANNEX 1: SME NEEDS ANALYSIS

Introduction

To establish the training and development needs of SMEs in Montenegro a company survey was undertaken by the OECD Investment Compact for SEE between 25th May and 6th July 2011. The survey was targeted at the senior managers and executives of export oriented firms in Montenegro in four broadly defined sectors: manufacturing, construction, tourism and trade. Exporting firms in each sector were identified from the Montenegro SME Business Directory and the TAM/BAS Programme in Montenegro. This gave an initial sample of 492 firms. Interviewing was performed by IPSOS market research company using Computer Aided Telephone Interviews (CATI) and had an achieved response of 150 companies, i.e. an achieved response rate of 30.5%.

The baseline characteristics of respondent firms are given in Table A1.1. Around 42.7% of respondents were in manufacturing. The remainder were divided between the other three sectors with construction the least represented, with only 9.3% of firms. Nearly 80% of the respondent firms are small (less than 50 employees) and a third are micro (10 employees). Many are well established with nearly three-quarters having been established for more than 10 years. The group of respondents also emphasises Montenegrin owned, family firms. About half of respondent firms indicated that they were exporting to former Yugoslavia, and about a quarter exporting beyond the borders of the former Yugoslavia. The respondents are export-oriented SMEs: SMEs either have reported export revenues (65%) or have export potential (35%). The overall profile of these companies – well-established, small, family-owned, export-oriented firms – suggests that potential barriers to export growth may relate both to scale and potential risk aversion.

Table A1.1. Profile of Respondent Firms

	% Firms
Industry	
Manufacturing and processing industries	42.7
Construction	9.3
Services	21.3
Business size	
Up to 10 employees	33.3
10-50 employees	46.0
50 plus employees	20.7

Table A1.1. Profile of Respondent Firms *(cont.)*

	% Firms
Business age	
Less than 5 years	9.3
5 to 10 years	19.3
More than 10 years	71.3
Fully owned by Montenegrin national	90.0
Family-owned firms	76.0
Exporting to former Yugoslavia	51.3
Exporting outside the former Yugoslavia	23

As a prelude to any discussion of their business needs and the potential value of different types of new business relationships, firms were asked about their views on the main barriers to the growth and development of their business. Figure A1.1 summarises their responses. Most common were a range of managerial functions relating to marketing, sales, human resources, and finance. Notably less emphasis was placed on the need for technical innovation in product and services. In terms of any voucher scheme this suggests that firm 'buy-in' may be stronger where a scheme delivers improvements in basic managerial competencies than where a scheme focuses more specifically on technological innovation.

Continuing the discussion about barriers to growth, firms were also asked about their willingness to accept or access outside help. Responses were coded as 'definitely willing to accept help' or 'probably willing' and responses are summarised in Figure A1.2. Between 40% and 50% of firms indicated their willingness to accept outside help to address the barriers to growth with another 25% 'probably' willing to accept help. These proportions differed relatively little between functional areas and between priority areas such as sales and marketing and less commonly emphasised themes such as technological innovation.

In terms of any voucher scheme, the willingness of firms to accept external help is reassuring and suggests that take-up of an accessible and appropriately targeted scheme may be relatively high.

Figure A1.1. Barriers to growth

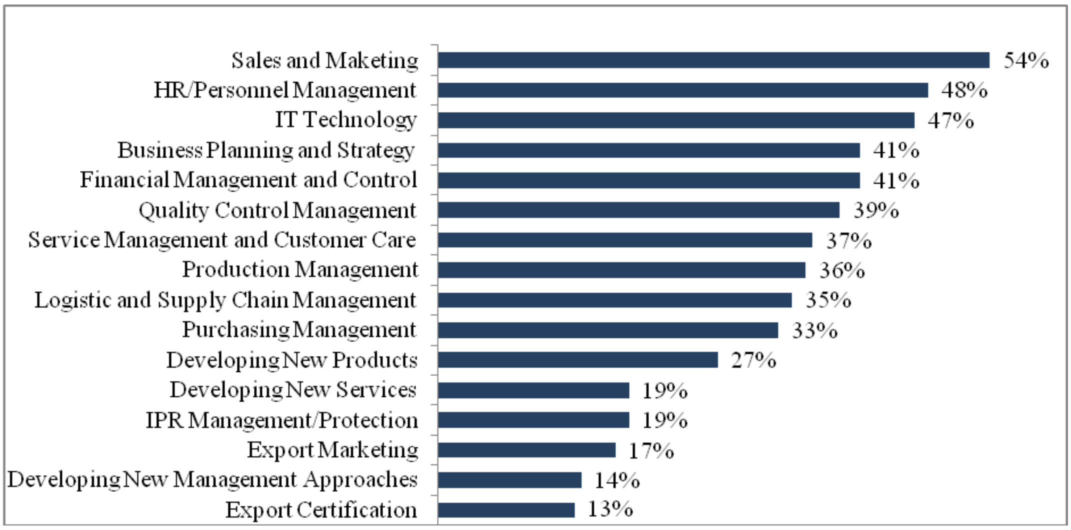
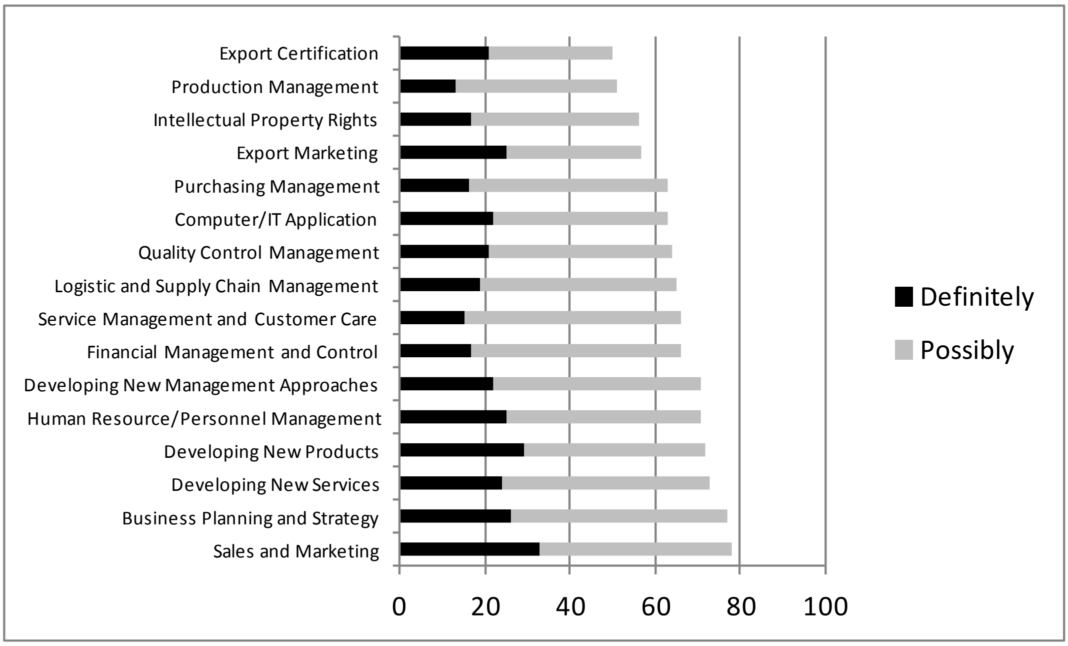


Figure A1.2 Willingness to accept help to address barriers to growth, % firms

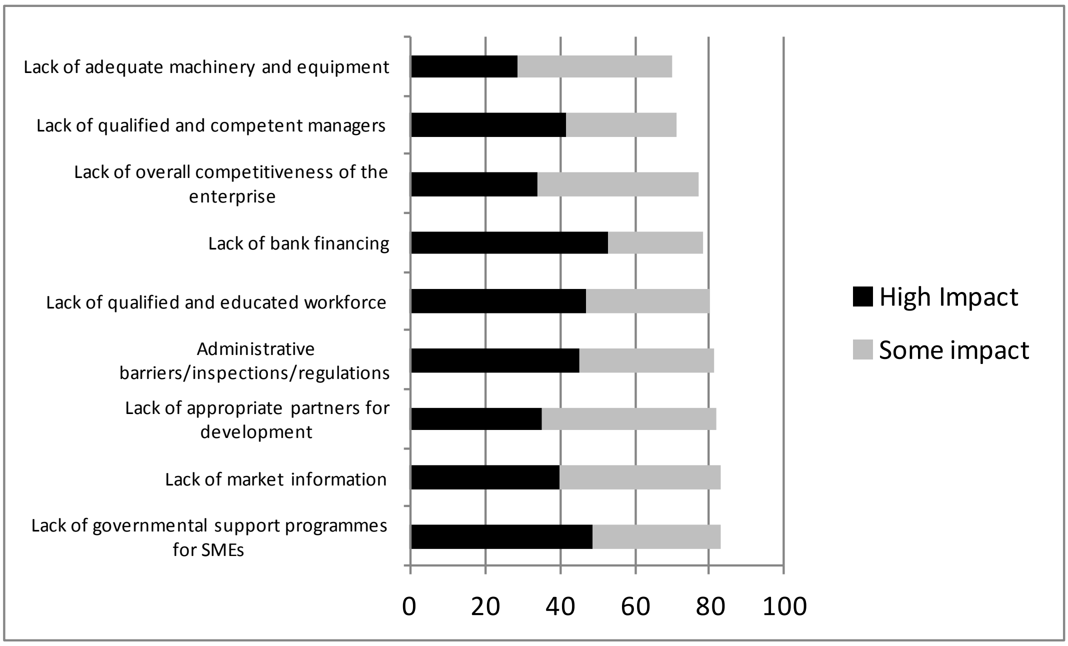


This pattern is seen again when firms were asked what they saw as the main external factors limiting their growth (Figure A1.3). An interesting pattern emerges between factors deemed to have a ‘high impact’ by firms and factors deemed to have ‘some impact’. The most common ‘high impact’ factors were: lack of bank finance and lack of government programmes to support SMEs.

This has three implications. First, the perceived lack of government support suggests that a voucher scheme would be widely welcomed by SMEs. This is likely to boost take-up. Second, even though the lack of market information is probably linked to the size of respondent firms it does imply that many SMEs may lack information about potential service providers. This builds a case for substantial brokerage activity to help SMEs identify suitable service providers. Third, there are clearly other issues which SMEs face in

Montenegro and a voucher scheme in isolation is unlikely to address all of these. These ‘contingent’ issues – finance, skills etc. – may well limit the impact of any voucher initiative.

Figure A1.3 External barriers to growth and development, % of firms



Consultants and Trainers

As part of the survey, firms were asked about the extent and results of their prior relationships with external consultants and trainers. Figure A1.4 summarises firms’ responses. Notably, around 70% of firms reported never having used external while around 53% reported having never used external trainers. Where firms had used external trainers or consultants these were almost equally divided between local, ex-Yugoslav and international consultants. Views on the capacity of local – Montenegrin – consultants and trainers were mixed, with only around 10% saying they could make a significant contribution to their businesses.

The point here is the lack of experience of many firms in working with external consultants. This implies that firms have little understanding of how to contract for external services, how to deal with disputes if they arise and how to manage such external contracts.

Figure A1.4 Frequency of use of consultants and trainers

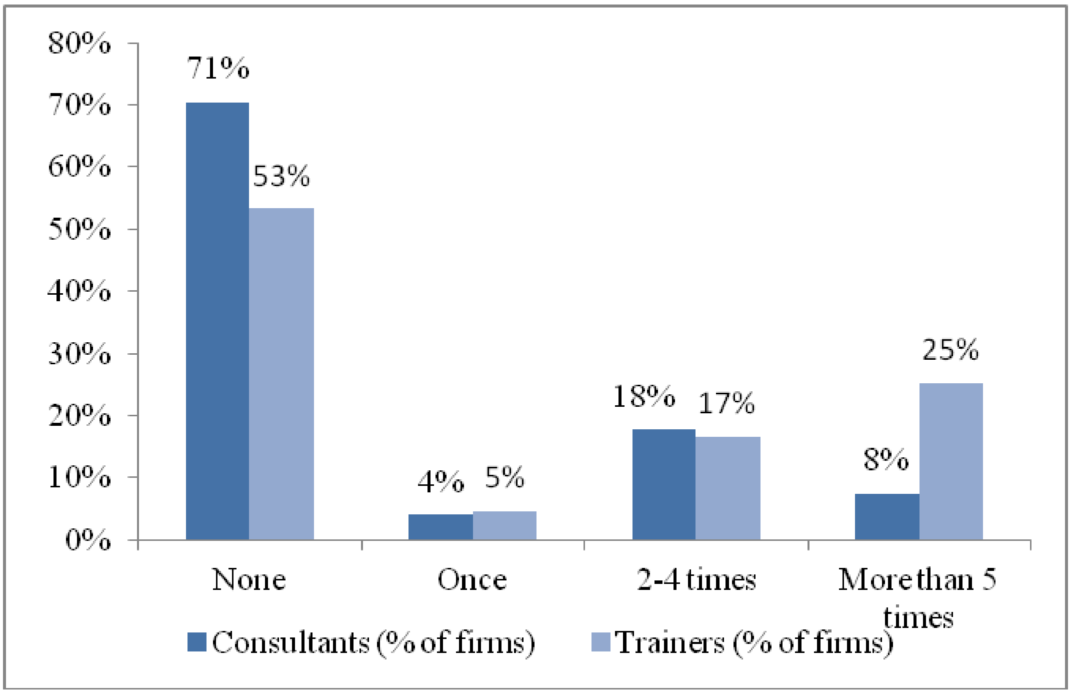


Figure A1.5 Outcome of use of consultants and trainers

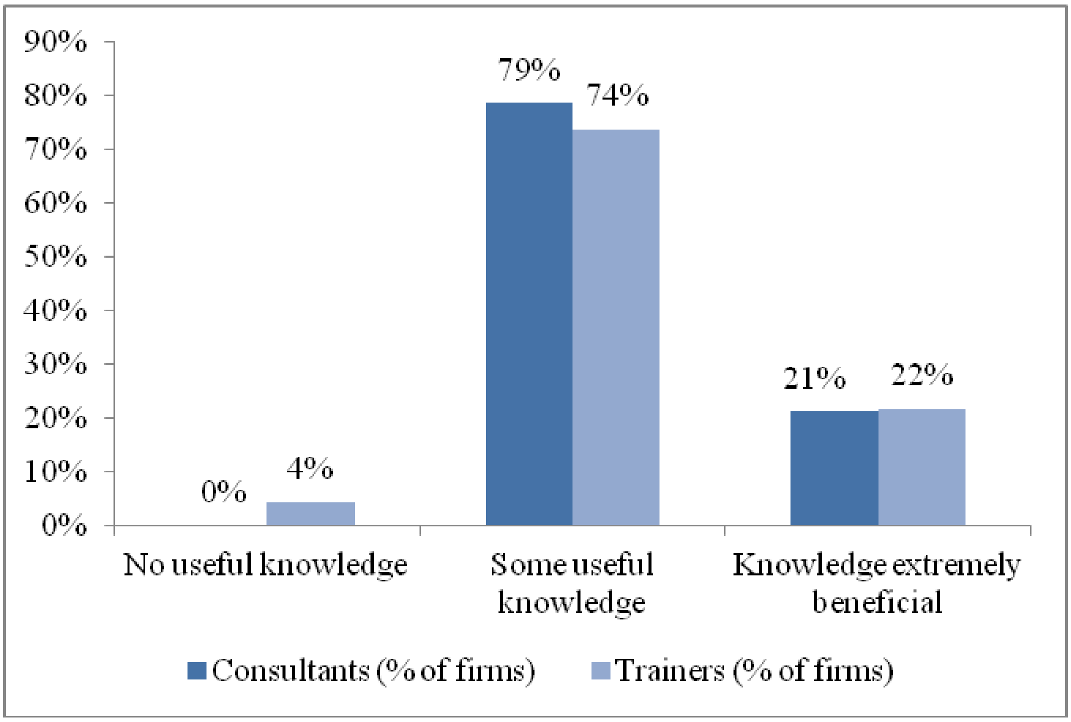
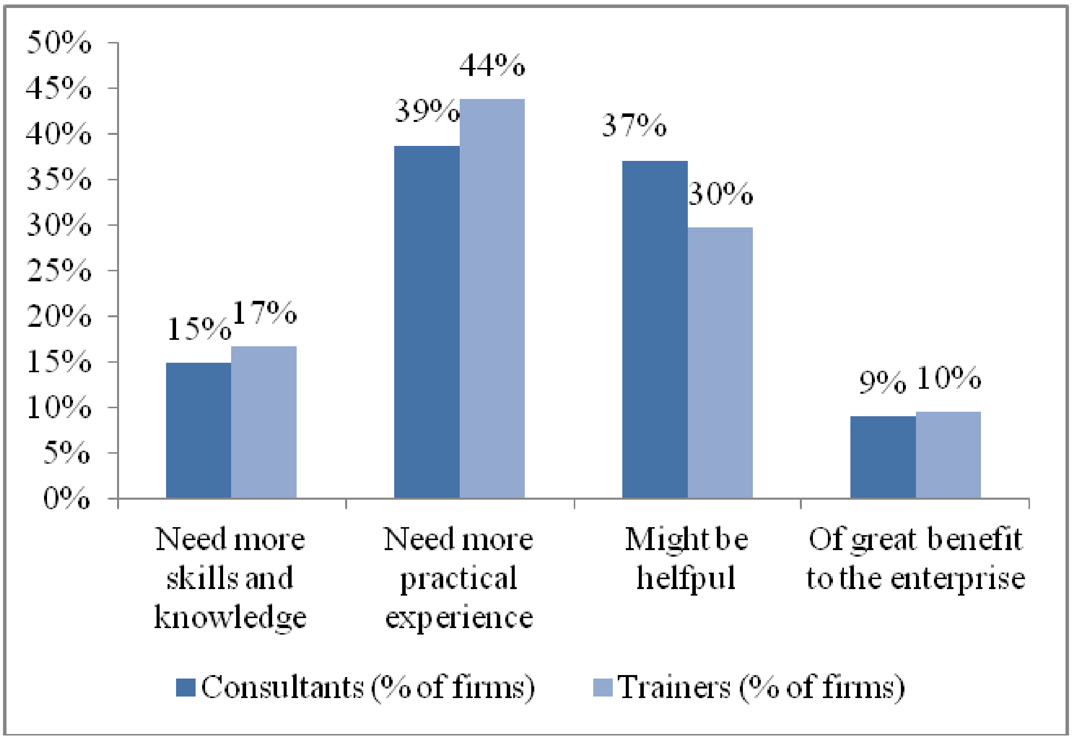


Figure A1.6 View of local provision of consultants and trainers



University Interaction

When asked about previous university interaction, around a third of firms indicated that they had had some prior dealings with a university; links which were predominantly with Montenegrin universities (Figure A1.8). This is perhaps a surprisingly high proportion, although the most common type of relationship was personal rather than institutional. Smaller proportions of firms (around 4-5%) had engaged in more institutional relationships with universities involving equipment, collaborative research or student placements. This shows that there are members of staff within Montenegrin universities who successfully collaborate with SMEs. This potential is confirmed by the data in Figure A1.9 on the perceived barriers to enhanced university collaboration.

Figure A1.7 Interactions with universities

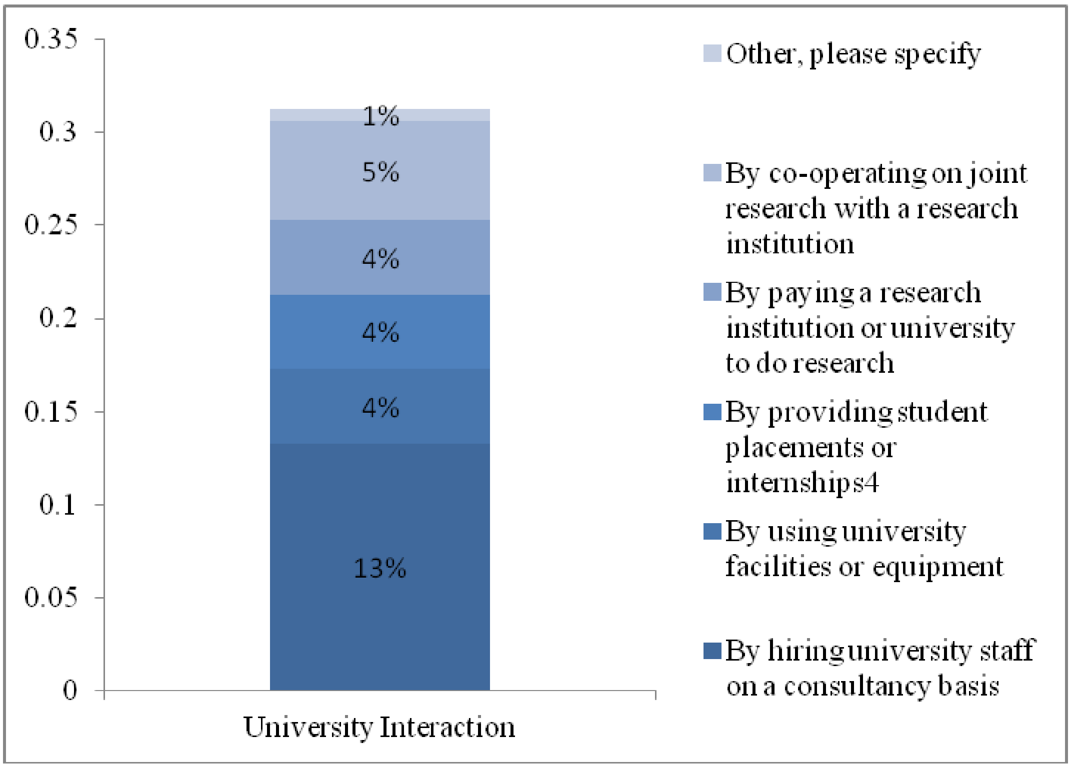
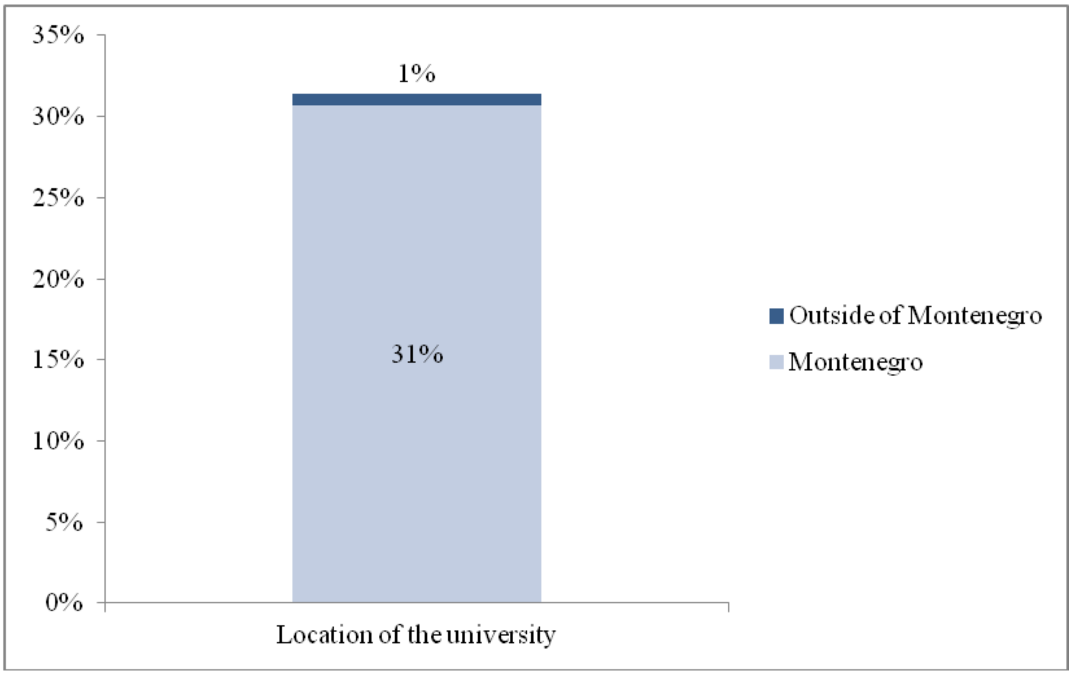
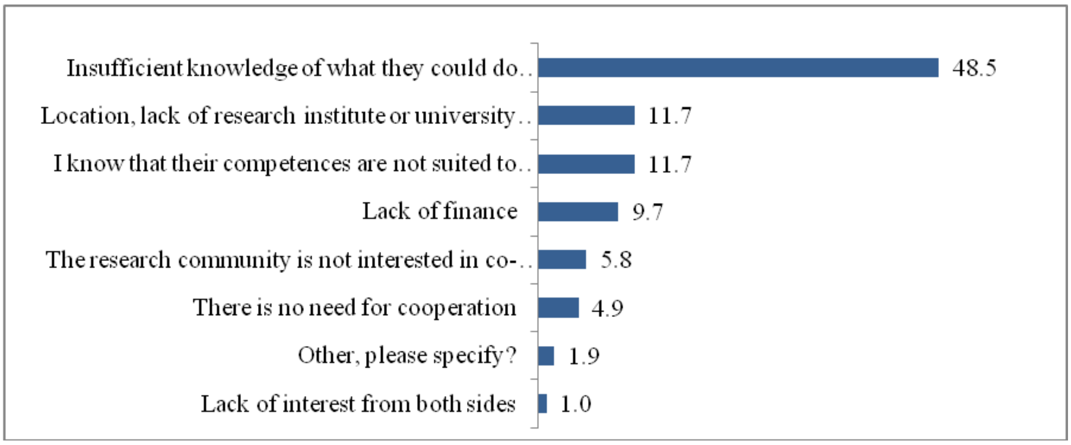


Figure A1.8 Interactions with universities



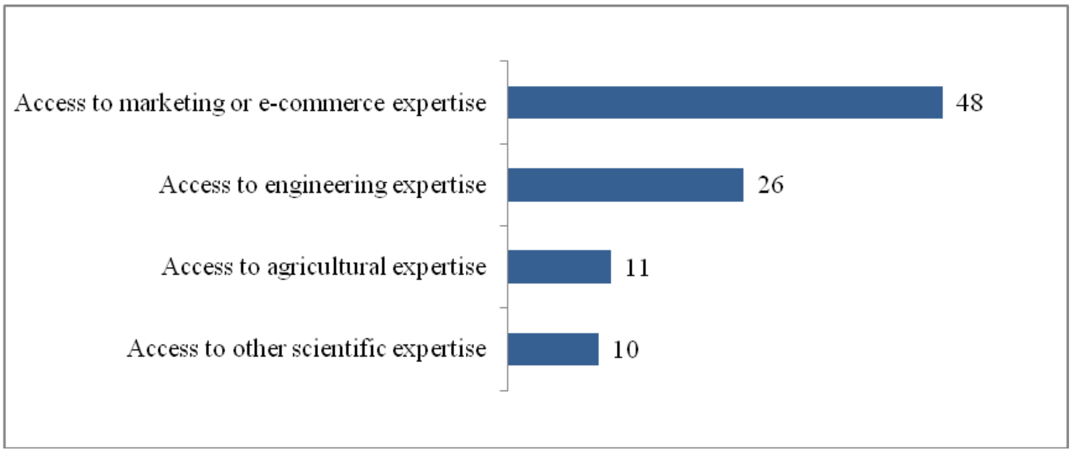
One of the findings from the survey is that nearly half of the firms indicated having an 'insufficient knowledge' of the capabilities of universities to help their business. This relates directly to the motivation for most innovation voucher schemes, which is to encourage SMEs to investigate the possibility of partnering with universities. Montenegrin SMEs' lack of knowledge about universities further implies that if a company-university voucher scheme was to be implemented in Montenegro, firms would need support to identify appropriate members of university staff with whom to work. This 'brokering' role can be time consuming and costly and would need to be taken into account in any budgetary planning for an innovation voucher programme.

Figure A1.9 Barriers to extending university interaction, % of firms



Firms were also asked what type of support they would like to receive from universities. Respones highlighted a need for marketing and sales support – which was prioritised by 48% of respondents. Engineering knowledge was only cited by 26% of firms but remains important for some firms (Figure A1.10).

Figure A1.10 Type of support wanted from universities, % of firms



Key findings

- Current levels of interaction between SMEs and consultants/trainers and universities are low. This suggests that many SMEs will not have previously cooperated with service providers and that a voucher scheem will need to provide support for structuring and managing the relationship.

- SMEs perceive functions such as marketing, sales, finance and business planning (rather than innovation) to be their main weaknesses. This suggests that SMEs would benefit more from an SME voucher scheme rather than an innovation voucher scheme

- Some SMEs doubt the capacity of local consultants/trainers and universities to provide effective support. Some form of quality insurance is therefore necessary.

- Firms report a lack of public support for SMEs. This suggests that the scheme could be seen very positively in publicity terms but also implies that it is necessary to manage expectations about scale, number of vouchers etc.

- Significant proportions of firms perceive see a need for enhanced managerial and technical skills. The take-up for the scheme is therefore likely to be strong.

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