



SME Policy Index

# Western Balkans and Turkey 2019

ASSESSING THE IMPLEMENTATION OF  
THE SMALL BUSINESS ACT FOR EUROPE

Pocketbook



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2 - SME POLICY INDEX : WESTERN BALKANS AND TURKEY 2019



# OECD SOUTH EAST EUROPE REGIONAL PROGRAMME

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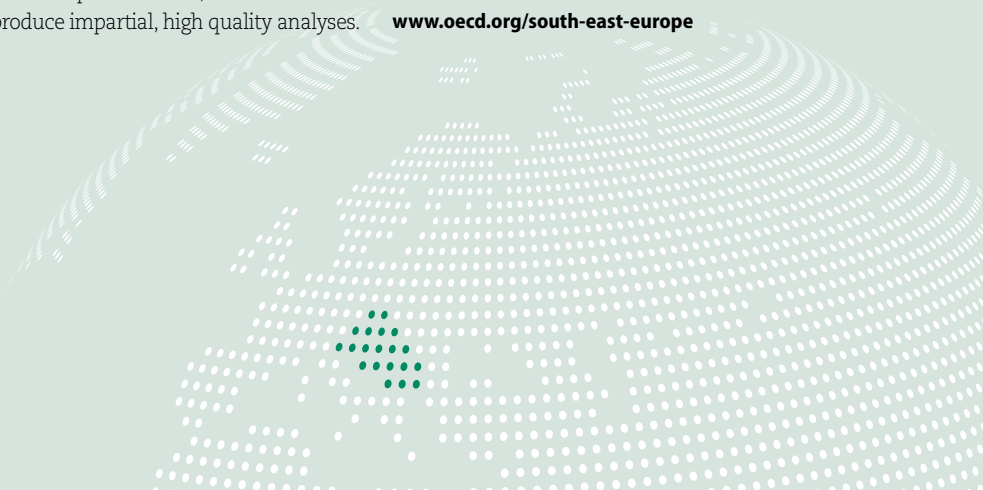
The **OECD South East Europe regional programme** supports countries in the region in the design and implementation of reforms in favour of stronger growth, higher investment and full employment.

The programme started in 2000 as the OECD Investment Compact for South East Europe to later extend the scope of its activities and become the OECD South East Europe regional programme.

The co-operation between the OECD and key regional stakeholders is based on a strong dialogue at the technical and political level, and on its capacity to produce impartial, high quality analyses.

As a result of the joint work with regional counterparts, the programme has produced actionable policy reports with recommendations for future policy actions and helped design and implement reforms to strengthen private sector development, competitiveness and to raise living standards.

[www.oecd.org/south-east-europe](http://www.oecd.org/south-east-europe)



## A TOOL FOR MONITORING PROGRESS ON SME DEVELOPMENT

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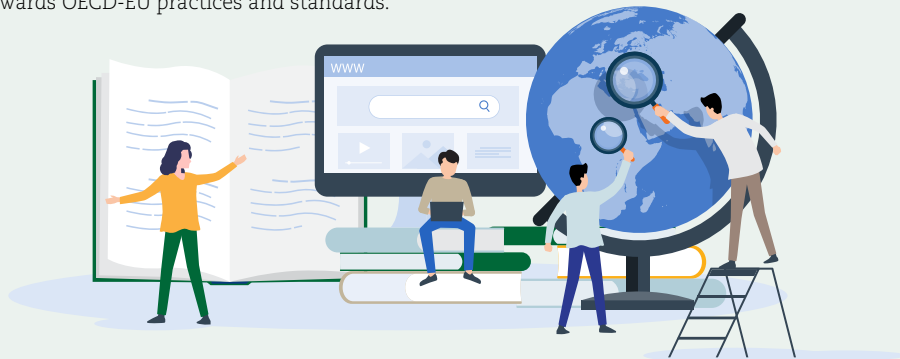
### **The Small Business Act for Europe (SBA)**

Assessment was developed to improve SME policy-making and enhance the capacity of policy makers to address related challenges in the seven EU pre-accession economies: Albania, Bosnia and Herzegovina, Kosovo\*, Republic of North Macedonia, Montenegro, Serbia and Turkey.

To achieve these overarching objectives, the SBA Assessment monitors progress in the implementation of the SBA and measures convergence towards OECD-EU practices and standards.

To conduct the assessment, a dedicated methodology – **the SME Policy Index** – was developed by the OECD, the European Commission, the European Training Foundation and the EBRD<sup>1</sup>.

The Index identifies strengths and weaknesses in SME policy design, implementation and evaluation, and allows for comparisons across time and economies. The assessment was carried out a total of five times in 2006, 2009, 2012, 2016 and 2019.



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

## METHODOLOGY

### SCOPE

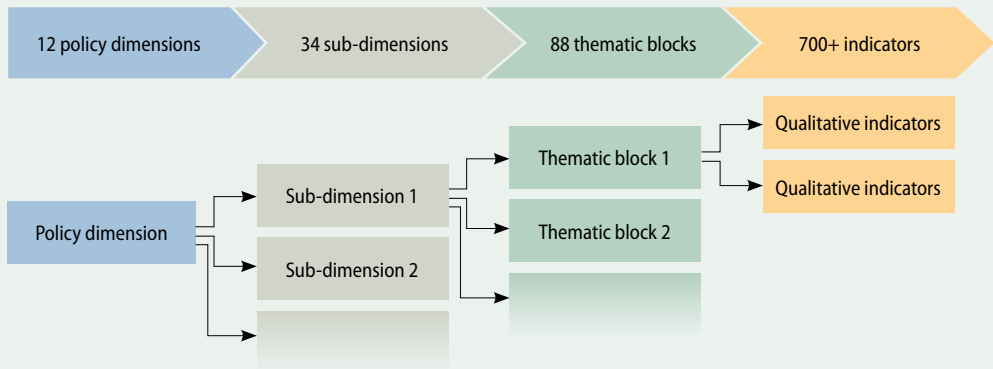
The SME Policy Index assessment framework was developed to respond to the priorities identified in the ten principles of the SBA.

It takes into account **12 policy dimensions** that are relevant for SMEs, ranging from entrepreneurial learning and public procurement to access to finance.

These are further broken down into sub-dimensions and thematic blocks. Each of the

12 policy dimensions comprises up to 5 sub-dimensions that capture the critical elements of policy development in the policy dimension of which they are part. The sub-dimensions are, in turn, made up of thematic blocks that consist of concrete indicators, both quantitative and qualitative.

For each dimension and economy, the assessment leads to qualitative and quantitative analyses, and customised policy recommendations.



SBA principle	Related policy dimension	Related sub-dimensions
<ul style="list-style-type: none"> <li>● Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded</li> </ul>	<ul style="list-style-type: none"> <li>● Entrepreneurial learning and women's entrepreneurship</li> </ul>	<ul style="list-style-type: none"> <li>● Entrepreneurial learning</li> <li>● Women's entrepreneurship</li> </ul>
<ul style="list-style-type: none"> <li>● Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance</li> </ul>	<ul style="list-style-type: none"> <li>● Bankruptcy and second chance</li> </ul>	<ul style="list-style-type: none"> <li>● Preventive measures</li> <li>● Bankruptcy procedures</li> <li>● Promoting second chance</li> </ul>
<ul style="list-style-type: none"> <li>● Design rules according to the "think small first" principle</li> </ul>	<ul style="list-style-type: none"> <li>● Institutional and regulatory framework for SME policy making</li> </ul>	<ul style="list-style-type: none"> <li>● Institutional framework</li> <li>● Legislative simplification and regulatory impact analysis</li> <li>● Public-private consultations</li> </ul>
<ul style="list-style-type: none"> <li>● Make public administration responsive to SMEs</li> </ul>	<ul style="list-style-type: none"> <li>● Operational environment for SMEs</li> </ul>	<ul style="list-style-type: none"> <li>● Digital government services for enterprises</li> <li>● Company registration</li> <li>● Business licensing</li> <li>● Tax compliance procedures for SMEs</li> </ul>
<ul style="list-style-type: none"> <li>● Adapt public policy tools to SME needs</li> </ul>	<ul style="list-style-type: none"> <li>● Support services for SMEs</li> <li>● Public procurement</li> </ul>	<ul style="list-style-type: none"> <li>● Business support services provided by the government</li> <li>● Government initiatives to stimulate private business support services</li> <li>● Public procurement</li> </ul>
<ul style="list-style-type: none"> <li>● Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions</li> </ul>	<ul style="list-style-type: none"> <li>● Access to finance for SMEs</li> </ul>	<ul style="list-style-type: none"> <li>● Legal and regulatory framework</li> <li>● Sources of external finance – bank financing</li> <li>● Sources of external finance – non-banking financing</li> <li>● Venture capital ecosystem</li> <li>● Financial literacy</li> </ul>



SBA principle	Related policy dimension	Related sub-dimensions
<ul style="list-style-type: none"> <li>● Help SMEs to benefit more from the opportunities offered by the Single Market</li> </ul>	<ul style="list-style-type: none"> <li>● Standards and technical regulations</li> </ul>	<ul style="list-style-type: none"> <li>● Overall co-ordination and general measures</li> <li>● Harmonisation with the EU acquis</li> <li>● SME access to standardisation</li> </ul>
<ul style="list-style-type: none"> <li>● Promote the upgrading of skills and all forms of innovation</li> </ul>	<ul style="list-style-type: none"> <li>● Enterprise skills</li> <li>● Innovation policy for SMEs</li> </ul>	<ul style="list-style-type: none"> <li>● Enterprise skills</li> <li>● Policy framework for innovation</li> <li>● Government institutional support services for innovative SMEs</li> <li>● Government financial support services for innovative SMEs</li> <li>● SME and research institution collaboration and technology transfer</li> </ul>
<ul style="list-style-type: none"> <li>● Enable SMEs to turn environmental challenges into opportunities</li> </ul>	<ul style="list-style-type: none"> <li>● SMEs in a green economy</li> </ul>	<ul style="list-style-type: none"> <li>● Framework for environmental policies targeting SMEs</li> <li>● Incentives and instruments for SME greening</li> </ul>
<ul style="list-style-type: none"> <li>● Encourage and support SMEs to benefit from growth markets</li> </ul>	<ul style="list-style-type: none"> <li>● Internationalisation of SMEs</li> </ul>	<ul style="list-style-type: none"> <li>● Export promotion</li> <li>● Integration of SMEs into global value chains</li> <li>● Promoting the use of e-commerce</li> </ul>



## METHODOLOGY

### SCORING PROCESS

Policy areas are given a score from 1 to 5, with Level 1 being the weakest and Level 5 the strongest. The overall score is derived by the **two assessments** and subsequent consultations with all key stakeholders in the participating countries.

The economies' governments conducted a **self-assessment**, which involved completing a questionnaire and assigning a score for each policy indicator, and providing an accompanying justification. The OECD and its partner organisations also conducted an independent assessment, with input from a team of local experts.

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

To achieve this, a series of **reconciliation meetings** were held in each of the assessed economies to discuss and compare the two parallel assessments, which helped to reduce bias and misjudgements. Based on the information gathered in these reconciliation meetings, the OECD and its partner organisations then decided the final results.

### Qualitative indicators

Measure policy settings, processes and institutions, asking whether these exist and whether they have been adopted, implemented, monitored and regularly updated.

<b>Level 0</b>	No framework
<b>Level 1</b>	Draft or pilot framework
<b>Level 2</b>	Framework is in place and operational
<b>Level 3</b>	Implementation of policy framework is advanced
<b>Level 4</b>	Evidence of framework monitoring and readjustment
<b>Level 5</b>	Independent impact evaluation; good practices

## ASSESSMENT PROCESS

### Assessment framework development

The OECD South East Europe Regional Programme in consultation with the partner institutions develop an assessment framework composed of qualitative and quantitative indicators based on the ten principles of the Small Business Act for Europe.

### Assessment

Governments conduct self assessments, and the OECD and the partner institutions carry out an independent assessments in parallel.

### Reconciliation

The OECD organises meetings in each economy to reconcile discrepancies between the government self-assessments and the independent assessments and to fill any remaining information gaps. Participants include government, private sector, academia and civil society representatives and independent experts.

### Final analysis and drafting

The OECD and partner organisations analyse information and draft the *SME Policy Index: Western Balkans and Turkey 2019*.





In 2017, SMEs made up 99.7% of all enterprises in the Western Balkans and Turkey (WBT). Micro enterprises make up by far the highest share: they accounted for 90.4% of all enterprises in the WBT on average in 2017.

## THE ROLE OF SMEs IN THE WESTERN BALKANS AND TURKEY

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

businesses in the average WBT economy, ranging from 0.14% in Kosovo to 0.88% in Bosnia and Herzegovina. SMEs make a significantly smaller contribution to business sector employment, than their numerical representation in the economy. Even so, in 2017 SMEs still accounted for 73.2% of total business sector employment. In Montenegro, about four out of five business sector employees were working in an SME, while in Bosnia and Herzegovina and Serbia the figure was only about two in three.



## SME sector statistics (2017 or latest year available)

	ALB		BIH		KOS	
	Number	Share	Number	Share	Number	Share
<b>Number of enterprises</b>						
Micro	38 946*	87.87%*	23 317	77.70%	34 611*	93.12%*
Small	4 236*	9.56%*	5 199	17.33%	2 182*	5.87%*
Medium	991*	2.23%*	1 227	4.09%	322*	0.87%*
Large	151*	0.34%*	265	0.88%	52*	0.14%*
<b>SMEs</b>	<b>44 173*</b>	<b>99.66%*</b>	<b>29 743</b>	<b>99.12%</b>	<b>37 115*</b>	<b>99.86%*</b>
<b>Employment</b>						
Micro	121 537*	30.74%*	64 906	14.01%	62 450*	34.92%*
Small	86 221*	21.81%*	105 631	22.80%	40 727*	22.77%*
Medium	98 440*	24.90%*	125 614	27.11%	33 075*	18.49%*
Large	89 113*	22.54%*	167 186	36.08%	42 588*	23.81%*
<b>SMEs</b>	<b>306 198*</b>	<b>77.46%*</b>	<b>296 151</b>	<b>63.92%</b>	<b>136 252*</b>	<b>76.19%*</b>
<b>Value added (in EUR million)</b>						
Micro	651.5*	19.36%*	883.8	11.90%	39.9*	13.16%*
Small	772.4*	22.95%*	1 709.1	23.02%	61.5*	20.29%*
Medium	759.4*	22.57%*	1 847.9	24.89%	144.1*	47.52%*
Large	1 181.9*	35.12%*	2 984	40.19%	57.7*	19.03%*
<b>SMEs</b>	<b>2 183.4*</b>	<b>64.88%*</b>	<b>4 440.1</b>	<b>59.81%</b>	<b>245.6*</b>	<b>80.97%*</b>
<b>Share of exports</b>						
Micro	–	9.11% <sup>n</sup>	–	11.03%	–	54.85%*
Small	–	17.50% <sup>n</sup>	–	21.32%	–	33.55%*
Medium	–	34.58% <sup>n</sup>	–	28.89%	–	8.93%*
Large	–	38.80% <sup>n</sup>	–	38.76%	–	2.67%*
<b>SMEs</b>	–	<b>61.19%<sup>n</sup></b>	–	<b>61.24%</b>	–	<b>97.33%*</b>

Note: \* 2016 data due to unavailability of 2017 data; p: provisional data; n: national size class definition.

For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data.

MKD		MNE		SRB		TUR	
Number	Share	Number	Share	Number	Share	Number	Share
<b>Number of enterprises</b>							
49 689 <sup>P</sup>	90.01% <sup>P</sup>	28 578	94.36%	344 279	96.23%	2 896 357	93.42%
4 572 <sup>P</sup>	8.28% <sup>P</sup>	1 376	4.54%	10 583	2.96%	170 088	5.49%
794 <sup>P</sup>	1.44% <sup>P</sup>	284	0.94%	2 372	0.66%	28 592	0.92%
148 <sup>P</sup>	0.27% <sup>P</sup>	48	0.16%	521	0.15%	5 375	0.17%
<b>55 055<sup>P</sup></b>	<b>99.73%<sup>P</sup></b>	<b>30 238</b>	<b>99.84%</b>	<b>357 234</b>	<b>99.85%</b>	<b>3 095 037</b>	<b>99.83%</b>
<b>Employment</b>							
123 077 <sup>P</sup>	31.91% <sup>P</sup>	51 569	38.96%	415 762	31.42%	5 646 664	35.26%
87 466 <sup>P</sup>	22.68% <sup>P</sup>	26 263	19.84%	213 380	16.12%	3 363 973	21.01%
77 801 <sup>P</sup>	20.17% <sup>P</sup>	28 182	21.29%	244 320	18.46%	2 871 407	17.93%
97 384 <sup>P</sup>	25.25% <sup>P</sup>	26 352	19.91%	449 963	34.00%	4 131 591	25.80%
<b>288 344<sup>P</sup></b>	<b>74.75%<sup>P</sup></b>	<b>106 014</b>	<b>80.09%</b>	<b>873 462</b>	<b>66.00%</b>	<b>11 882 044</b>	<b>74.20%</b>
<b>Value added (in EUR million)</b>							
890.3 <sup>P</sup>	20.93% <sup>P</sup>	0.7*	44.68%*	4 241	21.99%	34 218.7	14.54%
956.4 <sup>P</sup>	22.48% <sup>P</sup>			2 963	15.36%	42 433.7	18.03%
867.1 <sup>P</sup>	20.38% <sup>P</sup>	0.4*	25.80%*	3 723	19.30%	50 613.8	21.51%
1 539.9 <sup>P</sup>	36.20% <sup>P</sup>	0.5*	29.52%*	8 359	43.34%	108 051.5	45.92%
<b>2 713.8<sup>P</sup></b>	<b>63.80%<sup>P</sup></b>	<b>1.1*</b>	<b>70.48%*</b>	<b>10 927</b>	<b>56.66%</b>	<b>127 266.2</b>	<b>54.08%</b>
<b>Share of exports</b>							
–	7.43%*	–	49.37%*	–	7.95%	–	–
–	10.13%*	–	–	–	11.05%	–	56.20%
–	14.03%*	–	25.97%*	–	20.25%	–	–
–	68.43%*	–	24.67%*	–	60.75%	–	43.80%
–	<b>31.58%*</b>	–	<b>75.33%*</b>	–	<b>39.25%</b>	–	<b>56.20%</b>

For Bosnia and Herzegovina, data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska.

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

Most SMEs in the Western Balkans and Turkey operate in the distributive trade sector. In 2017, the share of all SMEs operating in this sector ranged from 28.2% in Serbia to 50.6% in Montenegro.

Consequently, it is not surprising that the distributive trade sector also accounted for most of SMEs' contribution to employment, followed by manufacturing and other services.



#### Distribution of SMEs by sector (2017 or latest year available)

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

Note: \* 2016 data due to unavailability of 2017 data; p: provisional data.

For the complete note, please refer to the *SME Policy Index: Western Balkans and Turkey 2019* publication.

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





### SMEs' employment share by sector (2017 or latest year available)

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

Note: \* 2016 data due to unavailability of 2017 data; p: provisional data.

For the complete note, please refer to the *SME Policy Index: Western Balkans and Turkey 2019* publication.

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

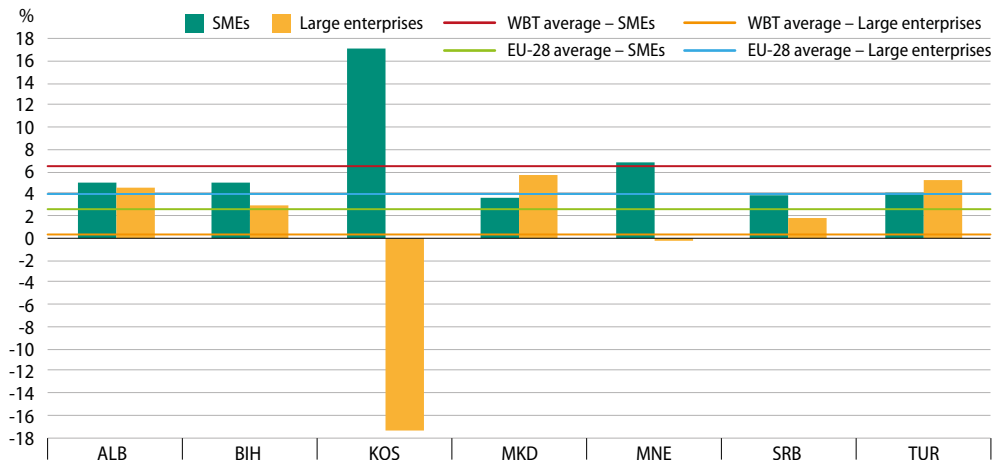
### Value added generated by SMEs

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

Between 2013 and 2016, SMEs had a higher compound annual growth rate (CAGR) of

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

### Growth in value added: SMEs versus large enterprises (2013-16) – CAGR 2013-16, current prices



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

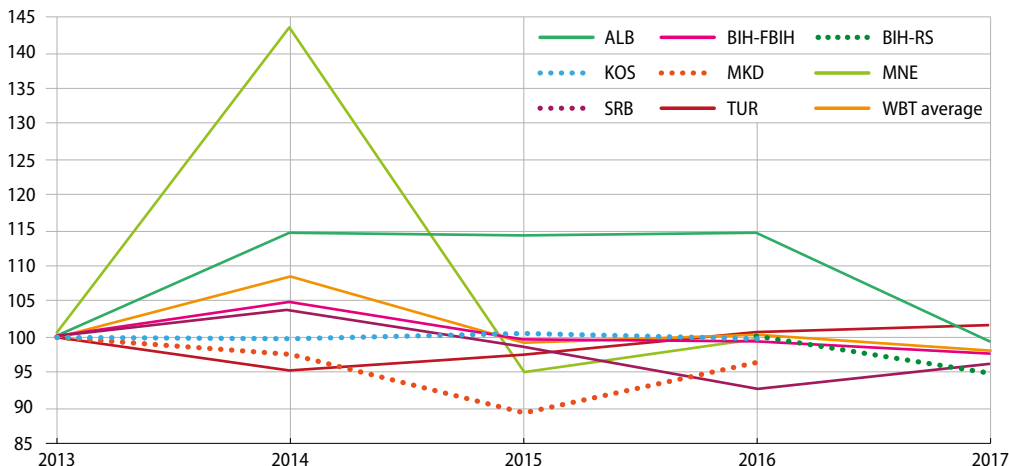
Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018), SME Performance Review, [https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review\\_en](https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en) (accessed on 30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

### Export performance of SMEs

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



### Growth of SMEs' share of exports (2013-17) – Index (2013=100)



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

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



# POLICY DIMENSIONS



## Dimension 1 – ENTREPRENEURIAL LEARNING AND WOMEN'S ENTREPRENEURSHIP

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**Entrepreneurial learning** refers to all forms of entrepreneurship promotion through education and training, as well as what is delivered outside mainstream schooling. Importantly, it includes the “entrepreneurship key competence”, which comprises cognitive and behavioural traits associated with the entrepreneurial character. Employers increasingly seek these competences to promote initiative and innovation in the workplace.

The policy interest in entrepreneurship as a key competence reflects the importance of building a more entrepreneurial culture in which all

workers are more innovative and adaptable, adding value to the workplace and the economy.

Economies suffer when women are under-represented among entrepreneurs. Therefore, they need to place importance on the development of support structures for **women entrepreneurs**; measures to raise awareness of the importance of women's entrepreneurship and develop skills; expanding dedicated partnerships, networking and support programmes such as mentorships; and putting in place the conditions enabling an adequate work-life balance.

Only 27.5% of business owners in the WBT region are women, and they hold just 14.2% of the top management positions in companies.



## KEY STATISTICS

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**High youth unemployment** in the WBT region (48% in the Western Balkans and 20% in Turkey) and concerns that joblessness in the Western Balkans is a key factor in young people leaving the region have prompted more policy interest in entrepreneurship. Education and training play a critical role in the entrepreneurship agenda.

The **gender gap** manifests itself in low numbers of female business owners, as well as in the statistics for company boards. Only 27.5% of business owners in the WBT region are women, and they hold just 14.2% of the top management positions in companies.

## ACHIEVEMENTS

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- **Entrepreneurial learning features in national policy across all assessed economies**, and ranges from stand-alone strategies to being a component of wider strategic policy instruments.

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- **The policy drive in the region is supported by a variety of stakeholder partnership arrangements.** These work towards co-ordination and co-operation across a range of policies (education, employment, small and medium-sized enterprises, innovation, regional development).

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- **Women's entrepreneurship is now on the policy agendas of all the WBT economies**, with most progress being made in designing and implementing policies.

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- **Co-operation between schools and enterprises in the region is ad hoc**, and generally depends on the initiative of individual teachers or school directors.

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- **Partnerships, both formal and informal, between public and private stakeholders to support women's entrepreneurship are increasingly found across the region.**

## REMAINING CHALLENGES AND RECOMMENDATIONS

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- **Raise awareness of the entrepreneurship key competence.** Given the recent establishment of the EU's EntreComp framework, all the economies should determine ways to increase awareness and understanding of entrepreneurship as a key competence for employability and competitiveness.

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- **Build entrepreneurial experience into vocational education programmes.** While many vocational programmes offer students opportunities to develop their occupational skills in work placements, consideration should be given to developing business skills as well (e.g. sales, marketing and finance).

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- **Share good practice in entrepreneurship promotion in higher education.** The economies should consider initiatives to identify and recognise the higher education institutions that are promoting entrepreneurship by creating an Entrepreneurial University of the Year award.

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- **Focus on strengthening formal and informal women's entrepreneurship policy partnerships** by establishing formal policy and institutional frameworks, implementing a common vision, and aiming to create co-ordinated action plans, accompanied by joint monitoring efforts.

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- **Focus on policy evaluation** by engaging the key policy partners and stakeholders, and making the results of evaluations public and open to feedback from stakeholders and beneficiaries.

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- **Continue building a gender-sensitive policy implementation environment** in which the gender sensitivity check becomes a routine procedure.




## Dimension 2 – BANKRUPTCY AND SECOND CHANCE FOR SMEs

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Corporate bankruptcy allows the market to remove inefficient businesses and reallocate capital to efficient ones. Therefore, companies entering and exiting the market are inherent to the business life cycle, and policies should ensure that this can occur in a smooth and organised manner. In this context, appropriate measures and legal provisions should promote a positive attitude towards giving entrepreneurs a fresh start; aim to complete

all legal procedures to wind up the business, in case of non-fraudulent bankruptcy, within a year; and ensure that restarters have the same opportunities in the market as they had the first time. Effective bankruptcy regulations are crucial to ensuring a positive impact not only on companies' market exit, but also on reducing the opportunity cost of entrepreneurship by creating more welcoming conditions for business creation.



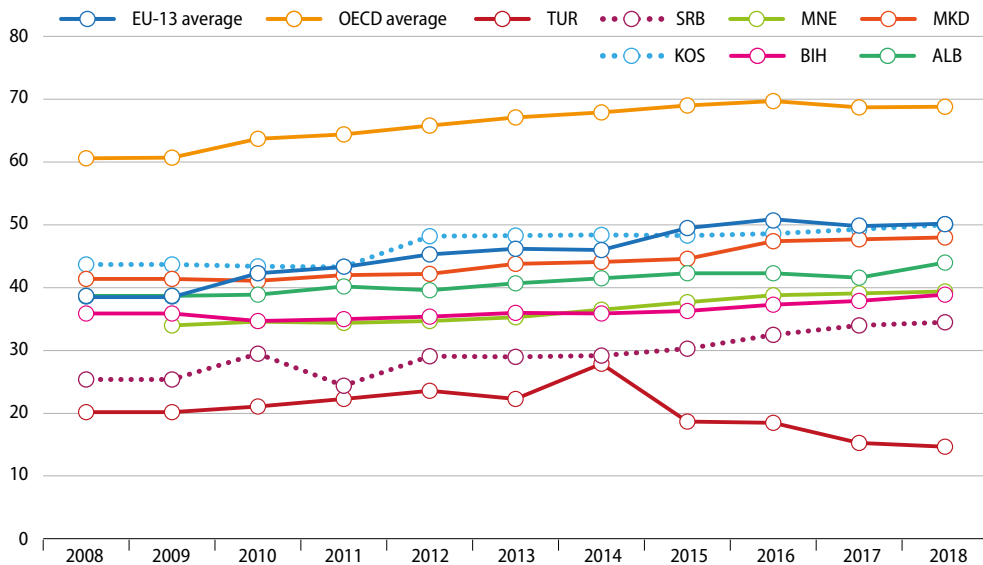
None of the economies in the region has managed to lower the cost of resolving insolvency since 2016.

## KEY STATISTICS

The region's performance in resolving insolvency remains, on average, comparable to 2016. North Macedonia is the only WBT economy where the time taken to resolve insolvency has fallen since the previous assessment. In both Montenegro and North Macedonia, insolvency is resolved faster than the OECD average.

None of the economies in the region has managed to lower the cost of resolving insolvency since 2016.

### Recovery rate for resolving insolvency



Source: Based on data from World Bank (2018<sup>[12]</sup>), Doing Business website, [www.doingbusiness.org](http://www.doingbusiness.org).



However, two economies – Bosnia and Herzegovina and Montenegro – perform better than the OECD and EU-13 averages.

For the recovery rate of secured creditors, all the WBT economies perform below the OECD and EU-13 average. Since the previous assessment, Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia have all increased their recovery rates.

### Time and cost of resolving insolvency

	ALB		BIH		KOS		MKD		MNE		SRB		TUR		OECD average		EU-13 average	
	Cost (% of estate)	Time (year)	Cost (% of estate)	Time (year)	Cost (% of estate)	Time (year)	Cost (% of estate)	Time (year)	Cost (% of estate)	Time (year)	Cost (% of estate)	Time (year)	Cost (% of estate)	Time (year)	Cost (% of estate)	Time (year)	Cost (% of estate)	Time (year)
2015	10	2	9	3.3	15	2	10	1.8	8	1.4	20	2	14.5	4.5	9.7	1.8	12.4	2.5
2016	10	2	9	3.3	15	2	10	1.5	8	1.4	20	2	14.5	4.5	9.7	1.8	12.4	2.5
2017	10	2	9	3.3	15	2	10	1.5	8	1.4	20	2	14.5	5	9.7	1.8	12.4	2.5
2018	10	2	9	3.3	15	2	10	1.5	8	1.4	20	2	14.5	5	9.7	1.8	12.4	2.5

Source: Based on data from World Bank (2018<sup>[12]</sup>), Doing Business website, [www.doingbusiness.org](http://www.doingbusiness.org).

## ACHIEVEMENTS

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- **Insolvency regimes have been strengthened in most of the economies.** Since 2016, the WBT economies have made a number of amendments to their insolvency laws.
  - **Out-of-court settlements are increasingly available.** Most WBT economies have introduced appropriate measures to provide honest entrepreneurs with alternative settlement procedures that allow them more time to restructure their businesses.
  - **Formal bankruptcy discharge procedures exist in most economies,** allowing entrepreneurs to reintegrate into the economy.
  - **Legal frameworks on secured transactions are in place,** protecting all parties involved in a transaction.
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## REMAINING CHALLENGES AND RECOMMENDATIONS

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- **Step up efforts to mitigate fear of failure.** One of the ways entrepreneurs can overcome their fear of failure is by gaining more knowledge. Therefore, creating new mechanisms or linking existing ones to disseminate information – such as web-based tools or call centres – would help entrepreneurs find sources where they can easily access information and improve their entrepreneurial skill sets.
- **Develop a fully fledged early warning system in order to effectively protect companies from bankruptcy.** SME owners have a tendency to underestimate their financial difficulties and resist taking action to alleviate them. Therefore, governments should consider introducing a system which would convince entrepreneurs to initiate recovery measures without delay.
- **Conduct entrepreneurial awareness campaigns about alternative forms of liquidation.** Most of the economies have established out-of-court settlement options as a less expensive and faster way to liquidate than filing for bankruptcy. However, entrepreneurs know little about the options offered by alternative settlement procedures and consequently, their use by enterprises remains limited.
- **Link out-of-court settlement systems to formal bankruptcy proceedings.** The outcomes of out-of-court settlement procedures should automatically trigger formal bankruptcy proceedings if a full agreement between debtor and creditors is not reached.
- **Introduce policy measures granting a second chance for honest entrepreneurs.** Governments need to clear the way for entrepreneurs who wish to restart. Introducing automatic debt discharge rules and setting a maximum time limit for the discharge process in the legal framework is essential to build effective second chance policies.
- **Make efforts to reduce the cultural stigma of failure.** To achieve a healthy entrepreneurial culture, the economies should recognise honest bankrupt entrepreneurs as a source of new enterprises and jobs. Therefore, a clear distinction has to be made between measures or regulations that apply to fraudulent bankruptcies and those that apply to honest ones.

## Dimension 3 – INSTITUTIONAL AND REGULATORY FRAMEWORK FOR SME POLICY MAKING

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Policy makers aiming to create a vibrant private sector need to bear in mind that SMEs are more at risk of incurring higher costs than larger enterprises when complying with administrative requirements. Therefore a one-size-fits-all approach cannot always be used, as business regulation has a greater impact on SMEs than on the large companies.

This is mainly due to the fact that: administrative costs for SMEs tend to be the

same or similar to those of large companies; the costs of legal uncertainty are proportionately higher for SMEs than for large companies, and while large companies can more easily afford to hire experts to support them in complying with regulatory requirements, for SMEs it is often the entrepreneurs who deal with regulations.

The institutional and regulatory framework needs to be adapted to incorporate SMEs' needs in order to facilitate their creation and growth.

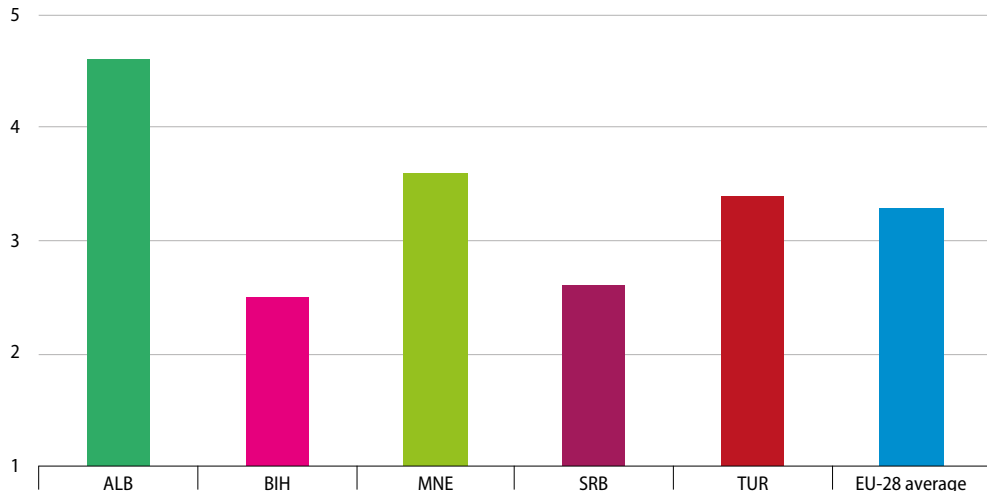


All WBT economies have undertaken regulatory reform efforts to review, simplify or eliminate legislation.

## KEY STATISTICS

In terms of perceptions of the regulatory burden on businesses in the region, the situation is positive. Albania, Montenegro and Turkey outperformed their peers in the EU. Meanwhile, Bosnia and Herzegovina and Serbia are perceived to have slightly more burdensome regulations compared to the EU average.

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



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

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

## ACHIEVEMENTS

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- **Institutional frameworks for SME policies have been established in most of the Western Balkan and Turkey economies.** The economies have well-developed SME strategies in place

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- **The economies have introduced measures aiming to combat the informal economy.** These measures are mostly being introduced by tax authorities, ministries of finance or employment agencies,

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- **All WBT economies have undertaken regulatory reform efforts to review, simplify or eliminate legislation.**

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- **Regulatory impact analysis has become a mandatory part of the policy-making system for the entire region.**

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- **A few economies are taking proactive steps to increase SME participation in public-private consultations** – notably by establishing councils and associations for SMEs

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- **Most of the economies have introduced a single government portal to list all ongoing public- private consultations** and make the views of participants in the consultation process available to the public.





## REMAINING CHALLENGES AND RECOMMENDATIONS

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- **Take a bottom-up approach to undertaking changes to SME definitions.** Although the definition of SMEs seems mainly relevant for statistical purposes, its real importance lies in assessing SMEs' broader contribution to the economy, and subsequently in devising strategies and support programmes for them.

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- **Establish mechanisms to closely examine the effects of policies on the SME community.** Any backward- or forward-looking assessment of policies should analyse whether SMEs are disproportionately affected or disadvantaged compared to large companies.

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- **Ensure that regulatory impact analysis findings have binding consequences.** In order to make the assessment process as effective as possible and decrease the potential disproportionate regulatory burden on SMEs, a legally binding mechanism for implementing RIA findings is needed.

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- **Establish mechanisms to closely examine the effects of policies on the SME community.** Any backward- or forward-looking assessment of policies should analyse whether SMEs are disproportionately affected or disadvantaged compared to large companies.

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- **Systematically conduct, in co-operation with the business sector, the regulatory review and simplification process and monitor it regularly.** Economies should renew business regulations in close dialogue with the business community by identifying those areas that businesses perceive as the most burdensome and propose measures to simplify them

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- **Improve PPC implementation and ensure that SMEs' voices are also heard in this process.** Public-private consultations should be conducted for all major legislation, and economies should avoid circumventing them through an urgent procedure.


## Dimension 4 – OPERATIONAL ENVIRONMENT FOR SMEs

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SMEs interact with public institutions at all stages of their life cycle – from registering a company and obtaining a business license to filing and paying taxes. The ease or difficulty of these interactions determines the operational environment which SMEs have to navigate. Public institutions that impose lengthy or costly procedures and complex or opaque requirements on businesses have adverse impacts on SMEs' abilities to operate, to take

advantage of market opportunities efficiently and to grow.

Consequently, in recent years, governments of the Western Balkans and Turkey in general have increasingly tapped into the opportunities offered by information and communication technologies to improve the operational environment for SMEs and set up points of single contact, to eliminate regulatory barriers.

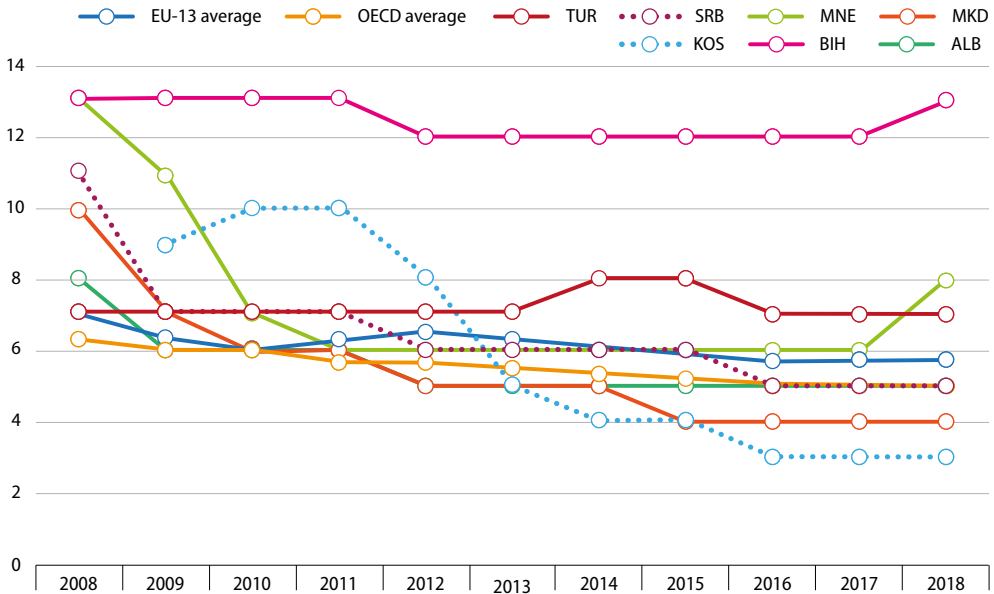


All governments in the Western Balkans and Turkey have established electronic portals allowing businesses to complete various services online.

## KEY STATISTICS

Albania, Kosovo, and Serbia are the frontrunners in the region and perform better than the OECD average when it comes to the number of procedures and time required to start a business. Between 2016 and 2018, the number of procedures required to start a business increased in Bosnia and Herzegovina by 1 to a total of 13; and in Montenegro by 2, reaching a total of 8 procedures.

### Number of procedures required to start a business (2008-18)



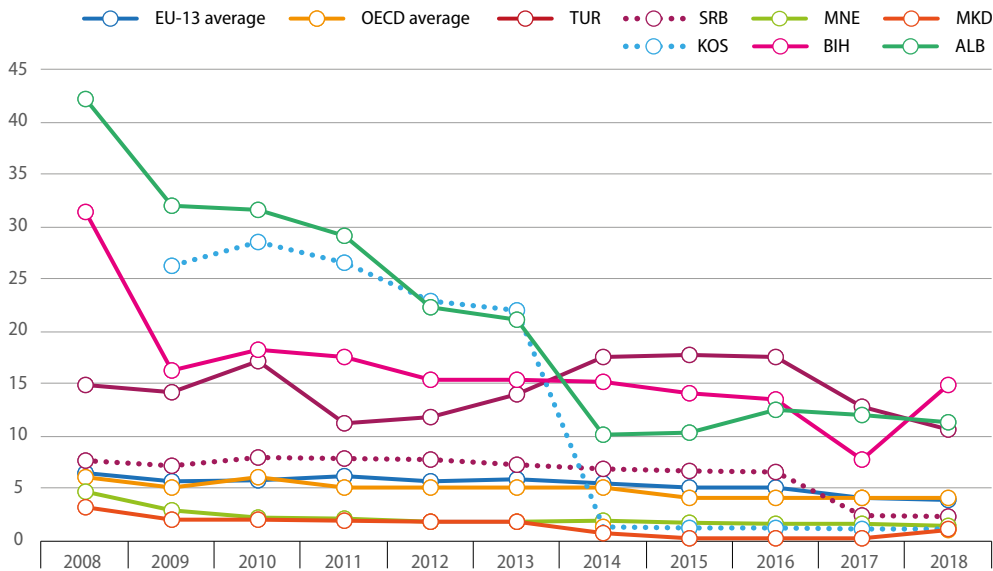
Note: EU-13 Member States – Bulgaria, Croatia, Cyprus\*\*, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

Source: World Bank (2018[6]), *Doing Business 2019: Training for Reform*, <https://openknowledge.worldbank.org/handle/10986/30438>.

The cost of starting a business has mostly been on a downward trend since the previous assessment, the exceptions are Bosnia and Herzegovina and North Macedonia.

Since 2016, Serbia and Turkey have achieved the most significant decrease in the cost of starting a business. In Serbia, costs have decreased from 6.5% to 2.2% of income per capita; one reason for this decrease is the reduction of the signature certification fee. In Turkey, despite a decrease from 17.6% to 10.6% of income per capita, the cost of starting a business remains far above the EU-13 average (3.8%).

### Cost of starting a business – % of income per capita (2008-18)



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

Source: World Bank (2018[6]), *Doing Business 2019: Training for Reform*, <https://openknowledge.worldbank.org/handle/10986/30438>.

## ACHIEVEMENTS

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- **All governments in the Western Balkans and Turkey have established electronic portals** allowing businesses to complete various services online.
  - **One-stop shops have been established in all seven assessed economies**, allowing businesses and administrations to save time and cost during the registration process.
  - **The assessed economies have made a start in improving data exchanges among state institutions.**
  - **All WBT economies apply clear procedures when granting a license.**
  - **All WBT economies have tax simplifications targeting SMEs.** Most notably, they have all established a threshold below which SMEs are not obliged to register for and remit value-added tax.
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## REMAINING CHALLENGES AND RECOMMENDATIONS

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- **Allow SMEs to complete all processes online.** Despite the progress achieved since the 2016 assessment, governments need to fully digitalise these services by expanding the use of electronic signatures or digital authentication.

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- **Expand the interoperability system** to improve connections between various public administration databases, to avoid businesses being asked for the same information several times.

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- **Increase the monitoring and evaluation of digital services targeting SMEs.** Governments need to incorporate monitoring and evaluation as an integral part of policy making to inform any mid-implementation corrections and future iterations of digital services.

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- **Adopt the rule of one identification number** for each company to use in dealing with all standard public administration functions.

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- **Fully implement the “silence-is-consent” principle within the administration:** if the appropriate public authority does not reply to a registration request by a business within a timeframe defined by law, consent is automatically given to the business to proceed.

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- **Create a central co-ordination body responsible for business licences in order to have a systematic overview of licensing.**

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- **Regularly monitor and evaluate tax simplification measures.** Complying with the eligibility criteria of simplified tax schemes in the region does not always remove complexity as intended.

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- **Strengthen the way administrations provide tax-related information to SMEs.** Information should be made available using modern communication platforms so that SMEs can access the information they need

## Dimension 5a – SUPPORT SERVICES FOR SMES

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Business support services (BSS) not only have a positive impact on productivity, but also on employment generation, exports and investment. Similarly, off-the-job training is found to be significantly associated with increased turnover and a decline in business closures.

While entrepreneurs can also acquire skills through informal training in the form of on-the-job training by more experienced staff, off-the-job training that takes employees away from their normal work duties has proven more

effective in increasing businesses' productivity and survival rates.

BSSs are more important for SMEs than for larger companies because SMEs generally deliver in-house training less frequently. In fact, governments and development organisations have invested significant financial resources in BSS delivery with the goal of freeing SMEs from institutional constraints, allowing them to increase productivity and to reach their full potential.



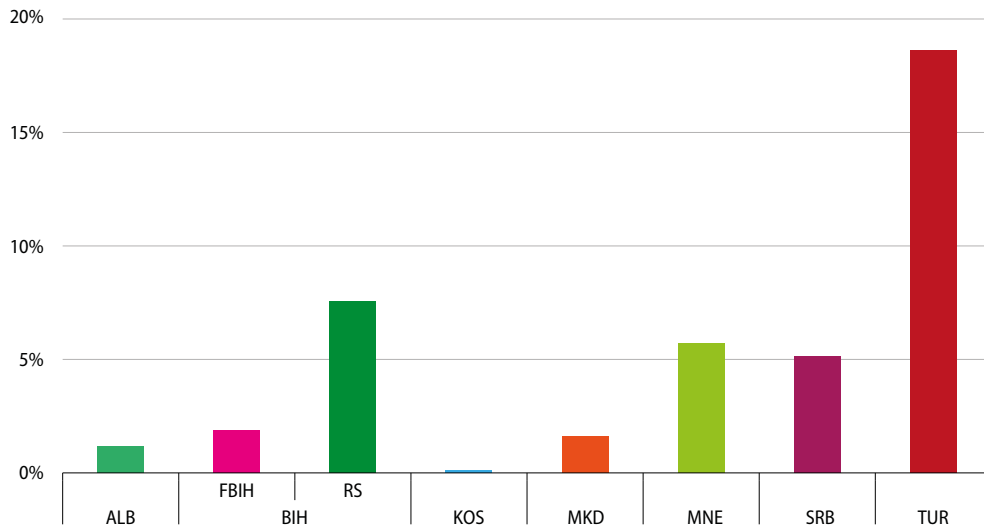
## KEY STATISTICS

There is a wide variation in SMEs' uptake of publicly funded and co-funded BSSs across the WBT, with Turkey having a much higher share than the others.

Whereas 18.6% of SMEs in Turkey used a publicly funded or co-funded BSS in 2017, only 3.3% of SMEs did so in the Western Balkan economies on average.

### SMEs' uptake of BSSs (2017)

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



Note: Data for the total number of SMEs (denominator) as of 2016 for Albania and Kosovo. Data on the number of SMEs for the Republika Srpska and the Federation of Bosnia and Herzegovina do not include unincorporated enterprises.

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



## ACHIEVEMENTS

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- **All WBT governments acknowledge the importance of BSSs**, and have included specific steps to boost BSS provision through both public institutions and private providers in their relevant SME policy frameworks.

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- **SMEs in all the WBT economies have access to BSSs provided by public institutions.**

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- **The provision of BSSs through private sector providers is also supported by all the WBT governments**, which all offer co-financing mechanisms characterised by well-defined structures and clear eligibility criteria.

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- **BSS provision is monitored by the SME agency or relevant public institution in all WBT economies.**

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- **All the WBT economies offer online information about the BSSs available.**



## REMAINING CHALLENGES AND RECOMMENDATIONS

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- **Analyse the need for and supply of BSSs more effectively and regularly** to fill the gaps in BSS provision, better target the support provided and create more effective BSS provision systems.

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- **Strengthen the monitoring and evaluation of BSSs provided through the government.** This is of paramount importance for increasing the effectiveness of BSS initiatives, related public sector programmes, and public budget allocation and spending.

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- **Provide easier access to information on BSSs to stimulate SMEs' uptake of support.** Due to the large number of support agencies and business associations, the provision of information on BSSs is at times confusing and fragmented.

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- **Continue supporting the development of a sustainable market of private sector BSS providers.** The relevant public institutions in the WBT economies should keep running their co- financing schemes and, where relevant, gradually reduce their dependency on donor support. They should check that the eligibility criteria for their co-financing schemes are not so strict that they discourage SMEs from applying.

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- **Boost co-financing scheme uptake by adapting them better to SMEs' needs. SMEs often do not take advantage of co-financing schemes.**

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- **Strengthen the monitoring and evaluation of BSSs provided through co-financing schemes.** This will be of paramount importance if the effectiveness of BSS initiatives is to be improved.

## Dimension 5b – PUBLIC PROCUREMENT

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Easy access to public procurement markets can help small and medium-sized enterprises (SMEs) to unlock their potential for job creation, growth and innovation, while having a positive impact on the economy. Greater SME involvement in public procurement also allows contracting authorities to broaden their potential supplier base, securing the positive effects of greater competition for public contracts as a counterbalance to dominant market players.

Procedural rules are often complex and the effort needed to take part seems too great, given the uncertain outcome. While this is a matter of concern for all companies, SMEs are particularly affected. They often lack the resources and know-how to deal with burdensome administrative requirements and cannot afford to spend money and time on a potentially fruitless exercise. As a result, SMEs often shy away from participating in calls for tenders.

Increasing the generally low participation rate of SMEs in public procurement would boost competition and could result in lower prices.

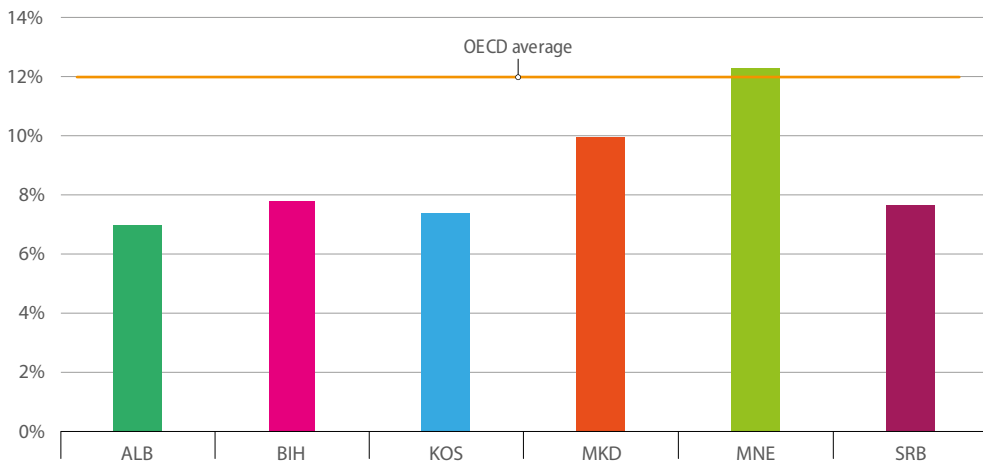
A photograph showing a man in a dark suit standing in the foreground, looking up at a very tall, modern glass skyscraper. The building's facade is highly reflective, showing a grid of windows. The sky is bright and slightly hazy, suggesting a clear day. The man is seen from the back, emphasizing his gaze towards the building.

Public procurement represents, on average, 12.0% of the GDP of OECD countries and almost one-third of government expenditure.

## KEY STATISTICS

In OECD countries, public entities and bodies spend large sums of money purchasing goods, services and works. Public procurement represents, on average, 12.0% of the GDP of OECD countries and almost one-third of government expenditure. This share is lower in the WBT economies, according to the data provided by respective central procurement offices in their annual reports. It is estimated that the value of contracts awarded in North Macedonia amounted to 10.0% of gross domestic product (GDP) in 2016. In Montenegro, public procurement represented 12.33% of GDP (in 2017); but the figures are much lower in Bosnia and Herzegovina (7.84% in 2016, although in 2012 it was 12.95%), Serbia (7.68% in 2017), Kosovo (7.35% in 2017) and Albania (7.0% in 2017).

### Public procurement spending – % of GDP for 2017



Note: Due to unavailability of 2017 data for Bosnia and Herzegovina and North Macedonia, data for 2016 were used instead.

Source: EC 2008, Public Procurement Administration of Montenegro, 2018; Public Procurement Agency of Bosnia and Herzegovina, 2017; Public Procurement Office of Serbia, 2017; Public Procurement Regulatory Commission of Kosovo, 2018; Public Procurement Agency of Albania, 2018).

## ACHIEVEMENTS

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- **The assessed economies have made progress, particularly in improving public procurement policy and regulatory frameworks**, but also in implementation, monitoring and evaluation.
  - **Some economies have improved their public procurement legislation, especially provisions relevant to SMEs.** They have simplified public procurement procedures by easing documentary evidence requirements and thereby reducing the administrative burden on SMEs, or allowed for the use of non-price criteria for awarding contracts.
  - **There are multi-year public procurement strategies in all the economies.** All the assessed economies have adopted multi-year national strategies for developing their public procurement systems.
  - **Participation conditions in all economies are non-discriminatory and proportionate.** Excessive requirements on economic operators, especially if not justified by the complexity of the object of procurement, would deprive SMEs of a chance to participate in the public procurement market.
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## REMAINING CHALLENGES AND RECOMMENDATIONS

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- **Further align their national legislation with EU rules and international good practices.**
- **Reduce the administrative burden of participating in public procurement.** Bidders should only be required to submit a declaration that they satisfy the requirements of the contracting authority, and that they will provide documentary evidence as required.
- **Increase the use of non-price criteria for awarding contracts to enable public buyers to receive the best value for money.** In particular, contracts must always be awarded based on the most economically advantageous tender and non-price criteria should be applied more often.
- **Focus on correctly implementing amended public procurement provisions** by providing consultations, assistance and training, both to contracting authorities and economic operators, especially those representing SMEs.
- **Constantly monitor and analyse the obstacles hindering SMEs from accessing public procurement markets**, including the costs of access to legal protection.


## Dimension 6 – ACCESS TO FINANCE FOR SMEs

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Access to finance is an important factor for companies, allowing them to expand their operations, modernise equipment or move into new undertakings, thereby increasing their competitiveness and helping them grow. However, ease of access to finance is typically correlated with firm size, meaning that the smaller the company, the more difficult it is to tap into external financing options.

An efficient legal framework that supports the enforcement of creditor rights helps to increase

financing opportunities from banks. Alternative sources of finance – such as microfinance, leasing and factoring – may also be actively supported through dedicated legal frameworks and supervisory mechanisms, and by raising awareness among SMEs of the range of financing options available to them. Finally, supporting SMEs' financial literacy through formalised programmes helps them develop their business planning and financial management skills, making them more attractive clients to financial service providers.

A close-up photograph of a person's hands using a black calculator on a desk. The person is holding a black pen in their left hand and has their right index finger on the calculator's keypad. The desk is covered with various papers, including one with a bar chart. In the background, there is a white coffee cup on a saucer and a window with a view of a city skyline.

The Serbian credit bureau is the only one in the region to recognise SMEs as a distinct group of borrowers and provide SME-specific credit reports.

## KEY STATISTICS

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NPL levels in the Western Balkans have come down since their peak in 2010-14, ranging from below 3% in Kosovo to 13.3% in Albania as of June 2018. Credit growth has picked up slightly and liquidity is ample. In some economies, such as Montenegro, banks are showing renewed interest in SME lending whereas in other markets lending remains subdued, either due to risk perceptions on the supply side or low demand.

All the economies in the region have either a public credit registry or a private bureau, with the coverage of the population varying.

In some economies, coverage has increased significantly in the past three to four years, most notably in Albania, Montenegro and North Macedonia, with the latter reaching 100% coverage in 2017. However, only credit bureaus in Bosnia and Herzegovina and North Macedonia collect data from retailers and utilities. The Serbian credit bureau is the only one in the region to recognise SMEs as a distinct group of borrowers and provide SME-specific credit reports.





## Key banking sector indicators (2008-18)

	Private sector credit, as % of GDP			Credit constrained firms, as % of firms needing a loan		NPLs, as % of total gross loans		
	2008	2014	2016	2008	2012	2008	2014	2018
<b>ALB</b>	35.4	37.1	34.7	35.6	60.4	6.6	22.8	13.3
<b>BIH</b>	66.8	55.3	53.2	35.8	37.1	3.1	14.0	9.7
<b>KOS</b>	32.9	36.0	39.3	64.9	46.5	0.0	8.2	2.8
<b>MKD</b>	42.1	48.9	47.4	50.2	50.3	6.7	10.8	4.9
<b>MNE</b>	87.0	51.4	48.9	44.0	63.2	7.2	17.2	7.4
<b>SRB</b>	39.0	43.8	43.4	36.3	39.1	11.3	23.0	9.2
<b>TUR</b>	35.2	74.5	69.9	26.6	18.7	3.4	2.8	3.0

Note: NPL ratios: latest available (Q1 2018 for BIH, MNE, SRB; Q2 2018 for ALB, KOS, MKD, TUR).

Source: (World Bank, 2016[9]), World Development Indicators 2016, <http://documents.worldbank.org/curated/en/805371467990952829/World-development-indicators-2016>; (EBRD, 2014[5]), Business Environment and Enterprise Performance Survey, BEEPS V (2011-2014), <http://ebrd-beeps.com>; respective regulatory bodies, latest available.

## Credit information coverage in the WBT economies (2008-18)

	Public credit registry coverage (% of adults)			Private credit bureau coverage (% of adults)		
	2008	2014	2018	2008	2014	2018
<b>ALB</b>	6.8	16.7	57.4	n/a	n/a	n/a
<b>BIH</b>	n/a	39.7	43.7	69.2	8.1	12.9
<b>KOS</b>	n/a	22.8	41.3	n/a	n/a	n/a
<b>MKD</b>	6.5	36.4	40.7	n/a	83.7	100
<b>MNE</b>	26.3	26	56.6	n/a	n/a	n/a
<b>SRB</b>	n/a	n/a	n/a	91.9	100	100
<b>TUR</b>	12.7	63.6	77.72	26.3	n/a	n/a

Note: n/a means institution does not exist in the economy.

Source: World Bank (2018[6]), Global Financial Development Database, <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

## ACHIEVEMENTS

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- **Legal and regulatory frameworks are in place in all economies of the Western Balkans and Turkey**, facilitating access to finance for SMEs. The coverage of credit information systems has expanded in most economies, enabling more enterprises to build the credit history they need.
- **Bank lending continues to be the dominant source of finance.** As banking systems recover lending has resumed and, in some economies, commercial banks are increasingly focusing on SME lending.
- **Non-bank finance instruments have gained momentum as governments increasingly recognise the need to diversify sources of finance.** The activities of microfinance institutions have increased in some economies, and across the region efforts are underway to strengthen legal frameworks to support leasing and factoring.

As banking systems recover lending has resumed and, in some economies, commercial banks are increasingly focusing on SME lending.



## REMAINING CHALLENGES AND RECOMMENDATIONS

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- **Continue efforts to strengthen collateral registries**, in particular for movable assets. For SME lending in particular, steps should be taken to facilitate a framework in which collateral can be easily established and repossession processes are straightforward.

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- **Strengthen and align data collection**. Informed policy decision making and impact monitoring can only occur in an environment where policy makers have access to reliable and standardised statistics.

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- **Continue efforts to support banking sector recovery**. Particular focus should be placed on further reducing NPL levels and providing a legal and regulatory environment that encourages sustainable credit growth.

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- **Work on establishing and strengthening credit guarantee schemes**. Where the first steps have been taken, governments should continue with the establishment of credit guarantee schemes; where schemes exist, but are ineffective, they should consider comprehensive reforms.

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- **Support the market penetration of factoring and leasing**. Amid increasing emphasis on reforms of legal frameworks for factoring and leasing, the focus should be on completing and adopting them.

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- **Continue efforts to build a business environment conducive to innovation**, including strengthening certainties for investors. Adopting dedicated legal frameworks to regulate venture capital investments and supporting innovative businesses with adequate finance and support infrastructure would increase the investment readiness of companies and boost foreign direct investment.

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- **Prioritise financial literacy within existing policy frameworks**. Economies should develop a centralised strategy co-ordinating a variety of financial literacy efforts targeting diverse population groups.

## Dimension 7 – STANDARDS AND TECHNICAL REGULATIONS


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Technical regulations and standards promote public policy objectives such as protecting human health or the environment. They also underpin global markets by helping to remove trade barriers. When well-harmonised among trading partners, standards and technical regulations can facilitate cross-border trade by reducing uncertainty and building trust among market players.

Currently, however, SMEs in the WBT economies do not fully benefit from the opportunities

provided by the EU Single Market. This is partially because they lack information about the rules applied in the EU, as well as sufficient language skills. The cost of meeting the requirements to enter the Single Market are also often another obstacle.

In this context, ensuring SMEs in the WBT economies have access to reliable and efficient quality infrastructure services will be critical to improving their products and stimulating demand from the EU Single Market.



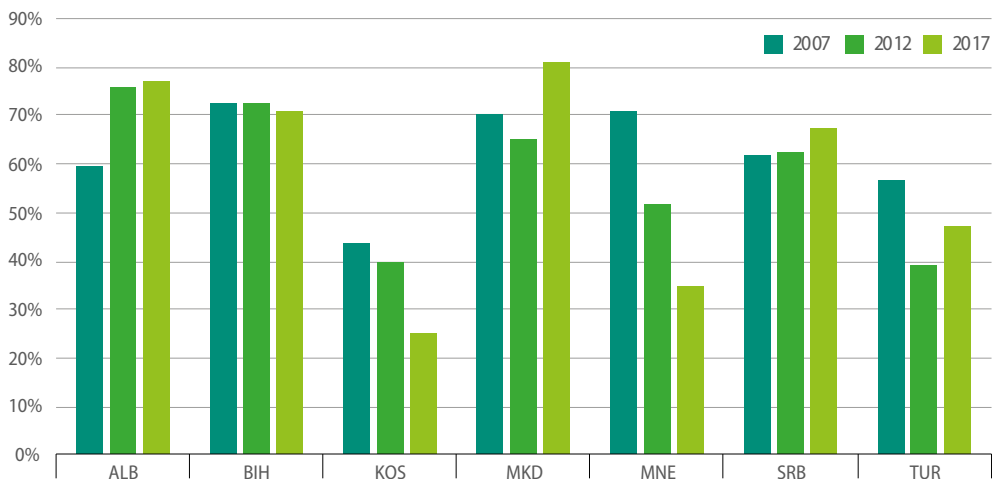
Overall co-ordination of quality infrastructure policies has significantly improved across most economies.

## KEY STATISTICS

The EU is the largest export market for the majority of the WBT economies and accounts for around 70% of total exports in Albania, Bosnia and Herzegovina, North Macedonia, and Serbia. It is also Turkey's largest export market, accounting for 47% of exports.

The Eurozone crisis of 2009 depressed export volumes in most WBT economies, which slumped by 21% on average. The first half of 2010 saw a vigorous rebound and has resulted in steady average growth ever since. In 2017 alone, the trade in goods volume grew 13.5% compared to the previous year.

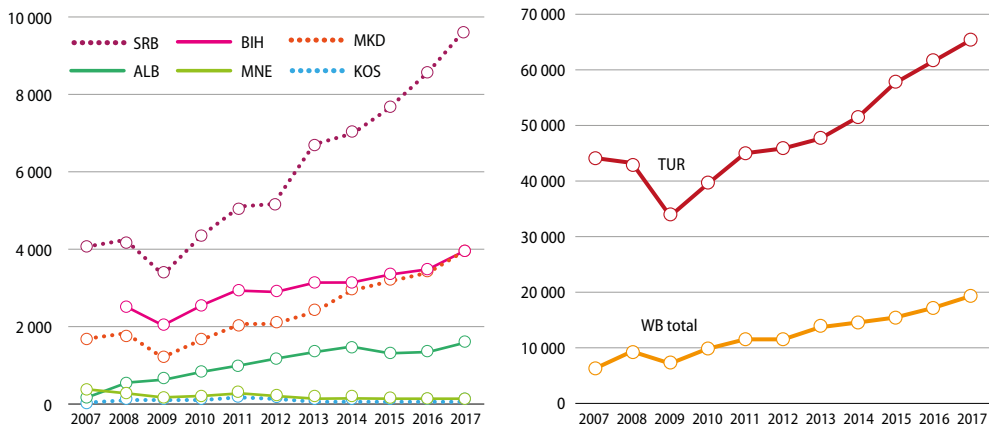
### Share of EU exports in total WBT exports (2007-17)



Note: Due to unavailability of 2017 data for Bosnia and Herzegovina and North Macedonia, data for 2008 were used instead.

Source: Adapted from Eurostat (2018[12]), International Trade of EFTA and Enlargement Countries dataset, [https://ec.europa.eu/eurostat/web/products-datasets/-/ext\\_lt\\_intercc](https://ec.europa.eu/eurostat/web/products-datasets/-/ext_lt_intercc).

### WBT exports of goods to the European Union (2007-17) – EUR million



Source: Adapted from Eurostat (2018[14]), Comext database, <https://ec.europa.eu/eurostat/web/international-trade-in-goods/data/focus-on-comext>.





## ACHIEVEMENTS

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- **Most governments have renewed their strategic documents for adopting quality infrastructure legislation and transposing EU directives.**

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- **All governments have taken steps to conclude mutual recognition agreements and participate in international quality infrastructure structures.** As a result, their quality infrastructure systems are increasingly consistent with the established principles in the EU and internationally.

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- **Overall co-ordination of quality infrastructure policies has significantly improved across most economies.**

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- **All WBT economies have legislation on market surveillance that is in line with the EU acquis.** Although the ultimate goal of market surveillance remains protecting consumers from unsafe products, a well-formulated system will also protect businesses from disproportionate costs and unfair competition.

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- **All governments have made progress in removing trade barriers by transposing European standards.**

## REMAINING CHALLENGES AND RECOMMENDATIONS

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- **Establish a single source of tailored information for SMEs.** This could consist of single web portals or trade help-desks and could include guidance in local language(s) for SMEs on health, safety, marketing and the technical standards their products need to meet.

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- **Explore regional collaboration and consider taking steps to establish the common use of quality infrastructure at the regional level.** A first step could be to consider the costs of and demand for quality infrastructure services to find out which services individual economies should establish themselves, and which could be provided at the regional level.

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- **Scale up the revenue-earning services of national standards bodies.** NSBs could diversify their revenue-earning services by preparing packages and subscriptions tailored to the needs of SMEs in particular sectors.

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- **Include standardisation topics in national secondary and tertiary curricula.** First, the relevant standardisation topics could be embedded in high school courses as well as university programmes. Second, co-operation between national standardisation bodies and academic institutions could facilitate the exchange of experience and expertise.

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- **Allow SMEs to participate in standards development through digital tools or by covering their travelling costs.** SMEs often do not have the time, personnel or financial resources to engage in standards development. National standards bodies should therefore consider the provision of digital platforms.

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- **Scale up financial support programmes to help SMEs implement standards.** Support for implementing standards is currently provided through general programmes for enhancing competitiveness, and the number of SMEs benefitting from the programmes remains low.



## Dimension 8a – ENTERPRISE SKILLS

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Enterprise skills are important for improving the performance of the business sector. Employers generally lack sufficient high-quality skills, particularly for growing enterprises and export-oriented companies. Effective policy making for business development requires systematic intelligence about the SME workforce to allow governments and the private sector to establish the necessary policies, support structures and training measures. Poor skills intelligence on the

other hand leads to mismatches between the supply and demand of skills.

Addressing skills mismatches cannot rely solely on more and better systems and tools. A variety of actors will need to collaborate to ensure that education and training provision matches the skills needs of SMEs. Continued improvement of the skills of both managers and staff will be necessary to sustain jobs and to grow businesses.

**Most of the WBT economies recognise the importance of digital skills for SMEs and the link with internationalisation.**



Build SME skills into smart specialisation strategies. As the economies move forward with smart specialisation, they will need to develop a vision for skills.



## ACHIEVEMENTS

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- **The Western Balkan economies and Turkey have made some progress in improving the governance of enterprise skills.** Most of the WBT economies have taken steps towards a more systematic approach to analysing SME training needs and translating them into concrete training provision.
- **The statistical basis needed to analyse companies' skills needs have improved over the assessment period.**
- **Most of the WBT economies recognise the importance of digital skills for SMEs and the link with internationalisation.**
- **Start-ups have access to more training.** All the economies in the WBT have started to invest more in financial and non-financial support for start-ups.

## REMAINING CHALLENGES AND RECOMMENDATIONS

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- **Designate a body to strengthen SME skills intelligence.** A designated body responsible for generating better and more timely information on SMEs' current and future training needs would close information gaps and help ensure policies respond to these needs.

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- **Build SME skills into smart specialisation strategies.** As the economies move forward with smart specialisation, they will need to develop a vision for skills.

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- **Make training offer relevant for local growth and competitiveness.** Decentralising the implementation of training policies would make it easier to tailor them to local needs.

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- **Boost SMEs' innovation potential by building on the digital and green economies.** These two domains could fuel SME innovation by opening up opportunities as new products, processes and techniques emerge.

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- **Build the systems and capacity to monitor SME skills policies and policy interventions within the priority areas identified in the smart specialisation strategies.** Smart specialisation cannot happen without suitable and continuous monitoring and analytical efforts.



## Dimension 8b – INNOVATION POLICY FOR SMEs

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Innovation helps firms to boost their growth and productivity, and governments need to support innovation at an enterprise level either in the form of financial and technical support schemes for local businesses, or by building a strong ecosystem which encourages innovation.

An overarching innovation policy framework is vital for putting into place long-term economic goals and strategic planning, while outlining concrete policy measures to build an innovation-supporting ecosystem. It is imperative to have a framework that defines the roles of different public institutions and ensure that the measures are complementary. The policy framework should ideally capture both technological and non-technological innovation, and incorporate policy measures such as fostering innovation activity and R&D, commercialisation and technology transfer.



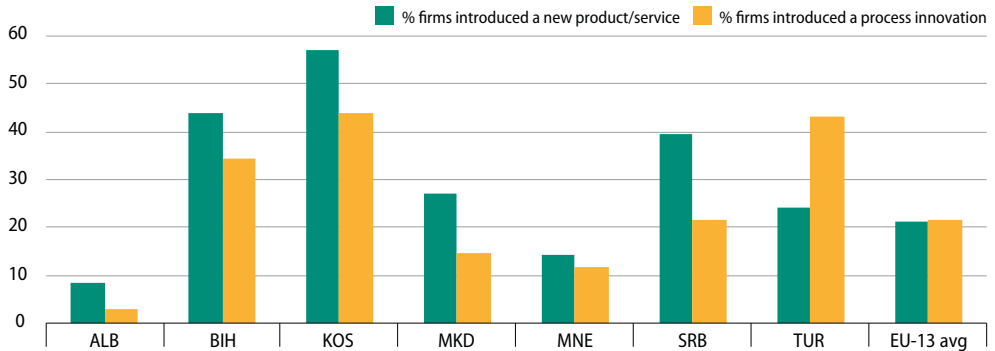
### KEY STATISTICS

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The percentage of firms that have introduced new products and services or a process innovation is higher in Bosnia and Herzegovina, Kosovo, Serbia and Turkey than it is on average in the EU-13 countries.

However, the low level R&D expenditure suggests that these innovations are not necessarily technological breakthroughs but rather the adoption of existing products and services from abroad.

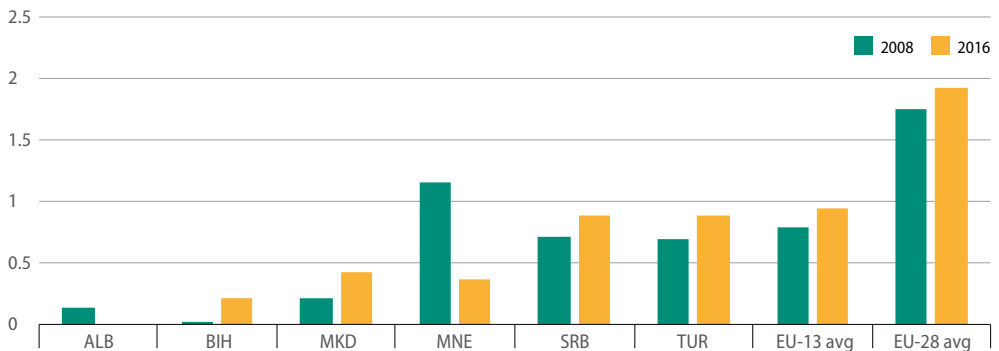
### Firms introducing innovations (2016)



Note: CEB represents the average of the Central European and Baltic members of the EU.

Source: European Commission (2017).

### R&D expenditure as a share of GDP (2008 and 2016)



Note: Data for Albania are only available for 2008; data for Kosovo not available.

Source: UNESCO Institute of Statistics (2018).

## ACHIEVEMENTS

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- **Horizontal coordination of innovation policy has improved across the region.** National councils for innovation have been established in four economies.

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- **Progress has been made in developing holistic innovation frameworks.** The majority of the economies have an innovation strategy in place or are in the process of renewing one.

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- **Governments have scaled up financial support for innovation.** While donor support remains critical, some governments have allocated significant budgets to sustain this type of policy.

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- **Most economies have introduced a mix of financial instruments to support firms' innovation and technology development.**

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- **Young companies increasingly benefit from a solid infrastructure of incubators** that also extends to regions outside the main economic hubs. A small number of accelerators has been developed through private sector initiatives as well.

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- **Several economies have established science and technology parks, technology institutes and technology transfer offices.**

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- **The first regional venture capital fund – the Enterprise Innovation Fund (ENIF) – has started operating in the Western Balkans,** backed by the European Union and several international financial institutions.



A small number of accelerators has been developed through private sector initiatives.

## REMAINING CHALLENGES AND RECOMMENDATIONS

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- **Develop sector-specific support and “smart specialisation” frameworks.** As general innovation policy frameworks are improving and SMEs’ absorption capacity indicates a long- term potential for innovation, governments can start developing vertical innovation policies targeting specific sectors or thematic areas.

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- **Explore cross-border collaboration and promote an ecosystem approach to innovation.** There have been considerable efforts to build a conducive ecosystem for innovation since the last assessment, but demand continues to exceed supply.

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- **Step up the efforts to accelerate technology diffusion among SMEs.** Most SMEs in the Western Balkans and Turkey are users of new technology, rather than creators of them. Therefore, policy makers in the region should give increased emphasis to promoting “new-to- firm” innovation that would contribute to improving SMEs’ productivity and competitiveness.

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- **Map the innovation infrastructure.** A complete picture of the research and innovation infrastructure in the Western Balkan economies and Turkey is, by and large, not available.

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- **Consolidate financial support measures and increase disbursements.** Regular monitoring and evaluation of financial schemes would enable governments to identify those instruments most needed and demanded.

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- **Diversify public support to business R&D.** With a view to stimulating business R&D, OECD countries use a mix of instruments that include both direct funding programmes and tax incentives. Given the over-reliance on direct funding in the Western Balkans, policy makers should gradually diversify their policy tools.

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- **Scale up IPR support services for SMEs.** There is a real need for SMEs to better grasp what intellectual property is and how they can make effective use of it.

## Dimension 9 – SMEs IN A GREEN ECONOMY

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Environment policies that specifically address SMEs are important for two main reasons. First, although SMEs individually have a smaller environmental impact than large companies, their aggregated environmental footprint is quite significant and often surpasses that of large corporations. Second, SMEs' overall potential contribution to economic growth and employment is significant, while their particular characteristics can enable them to adapt to fast-changing market conditions and give them

the flexibility to develop new products and practices, including green ones. Their less formal communication style and flatter hierarchical structures can offer a favourable environment for new and innovative approaches to green business practices. These features make SMEs good candidates for introducing eco-friendly products and more environmentally friendly practices and services, whilst also helping them develop new business opportunities and build a competitive advantage.

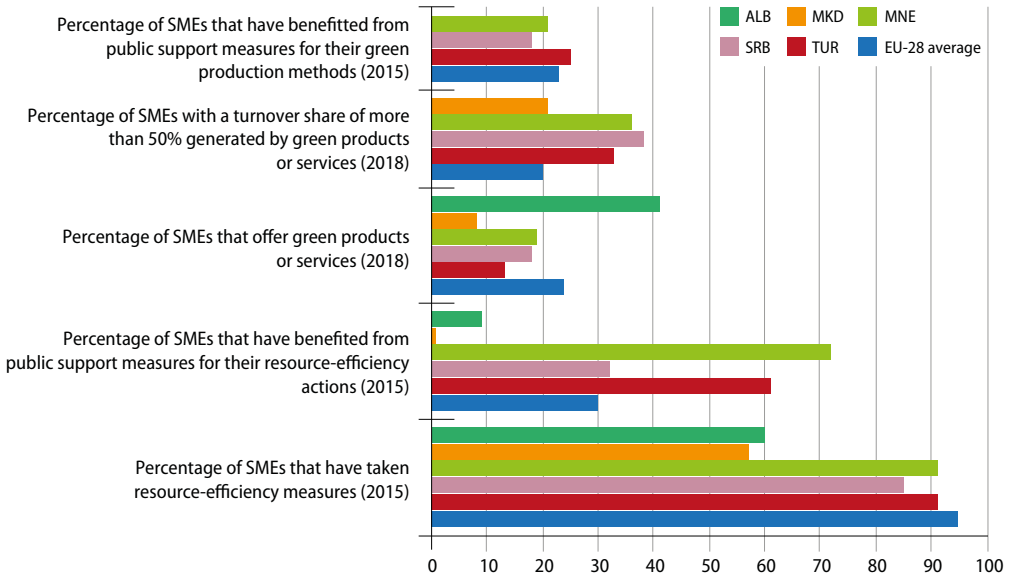




## KEY STATISTICS

There is encouraging evidence that SMEs' increased efforts towards greening across the region. Turkey, Montenegro and Serbia stand close to the EU average in terms of the share of SMEs that have taken resource-efficiency measures. In addition, the share of SMEs offering green products or services in Montenegro and Serbia is similar to the EU average, while the share in Albania is even higher than in the EU.

### SME greening business activities and support in Western Balkans and Turkey



Sources: Adapted from EC (2017[8]), SBA Fact Sheets: Albania, Montenegro, North Macedonia, Serbia and Turkey; EC (2018[5]), Flash Eurobarometer 456: SMEs, Resource Efficiency and Green Markets, [http://data.europa.eu/euodp/en/data/dataset/S2151\\_456\\_ENG](http://data.europa.eu/euodp/en/data/dataset/S2151_456_ENG).



## ACHIEVEMENTS

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- **SME greening measures and policies are now included in overall SME strategies** in almost all the Western Balkans and Turkey (WBT) economies. Resource efficiency and eco-innovation lie at the forefront of new SME greening measures, which mostly contain clear targets, planned budgets and timeframes.
- **Advice and guidance programmes on SME greening are slowly emerging in the region** and greening practices are becoming recognised and awarded. In particular, these programmes aim to share information and provide expertise to help SMEs take advantage of the opportunities from emerging green markets and improved resource efficiency.
- **Some WBT economies plan to introduce financial incentives for SME greening** in their new SME strategies.
- **Incremental progress has been made in introducing non-financial tools** for SME greening.
- **Business associations are increasingly involved in developing and implementing SME greening policies** and their supporting instruments, for example providing information and guidance to SMEs on adopting environmental practices.

## REMAINING CHALLENGES AND RECOMMENDATIONS

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- **Ensure effective cross-sectoral co-ordination.** While economies ideally should have a co-ordination body for SME greening, this does not need to be created from scratch – it could easily be a body that is already in charge of SME policy implementation.
- **Facilitate partnerships among businesses to support SME greening activities,** such as increasing resource efficiency. The government should encourage the creation of business networks to enhance peer-to-peer learning and collaboration.
- **Align energy-efficiency measures that are part of the SME greening policy mix with other energy-related policies and strategies.** In particular, while setting prices for electricity and other major energy inputs in the WBT region, policy makers should consider whether they might discourage enterprises from taking cost-efficiency measures.
- **Step up efforts to provide advice and guidance to SMEs on green practices.** These activities should include disseminating guidance on good practices and conducting outreach programmes to promote eco-friendly practices.
- **Address financial barriers to SMEs' greening efforts.** The WBT governments could introduce dedicated loan guarantee schemes to support the approval of green project loans and encourage lenders to make their loan terms more attractive to borrowers.
- **Fill the funding gap through the support of state investment banks to SME greening.** Given the relatively limited market presence of commercial banks in the Western Balkans in the area of green investment, measures facilitating SME access to finance could also be introduced through state investment banks.

## Dimension 10 – INTERNATIONALISATION OF SMEs

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Given that most of the economies of the Western Balkans are relatively small, access to global markets can support SMEs' long- term viability. Their market reach can be broadened and strengthened through exposing them to international competition and greater economies of scale. Government support to SMEs in the areas of export promotion, integration into global value chains and e-commerce can help

SMEs to internationalise in a way that enhances their visibility, optimises their productivity and harmonises their activities with the growing digital economy. Facilitating SMEs' access to and competitiveness in international markets requires removing barriers to trade, particularly those that impose fixed costs; increasing access to the information necessary for SMEs to compete and succeed on the international playing field; providing logistical support to establish contacts with external buyers and sellers; and assisting in developing products and services that meet international market demand.

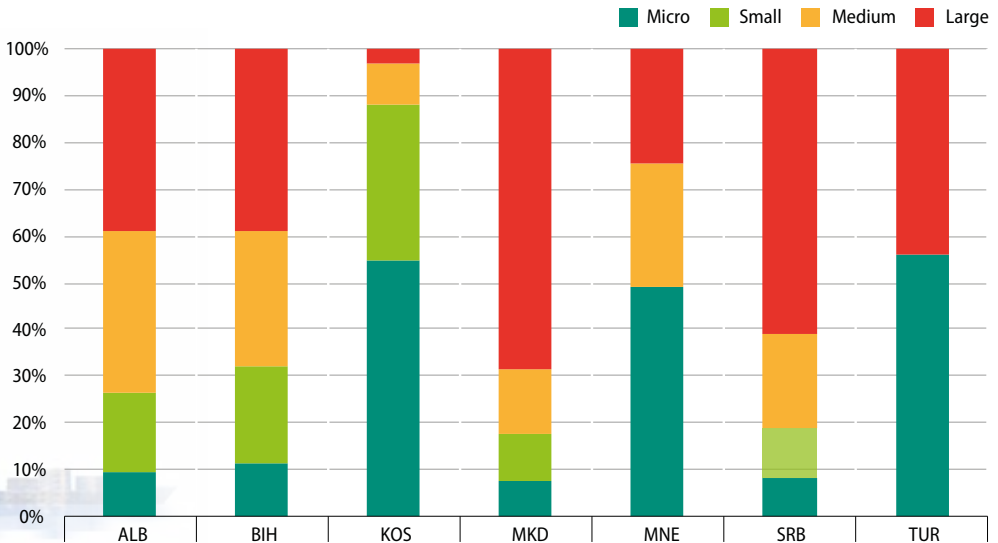


## KEY STATISTICS

Large enterprises, i.e. those with more than 250 employees, are the size class with the greatest share of exports in all the WBT economies except Kosovo and Montenegro. Among the WBT economies, SMEs' share of exports was highest in Kosovo (97% in 2016), and lowest in North Macedonia (32% in 2016).

SMEs' share of exports remained relatively constant throughout the region during 2014-17 except in Albania, whose share increased from 47% to 61%.

### Share of exports by enterprise size class (2017)



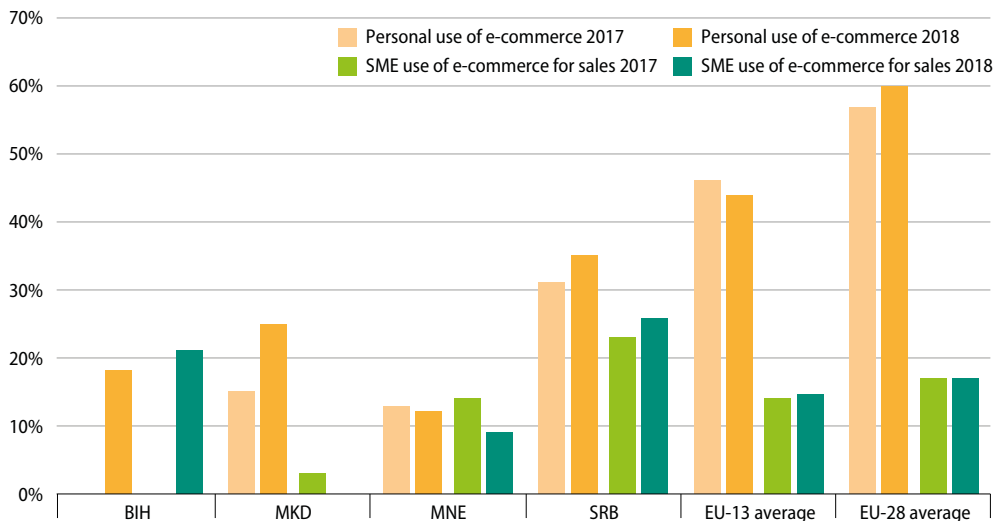
For the complete note, please refer to the *SME Policy Index: Western Balkans and Turkey 2019* publication.

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

In 2018, 60% of individuals in the average EU-28 economy purchased on line. Within the WBT economies, the share of individuals who purchase on line was largest in Serbia (35%), Turkey (25%) and North Macedonia (25%).

The percentage of SMEs selling on line was much higher in Serbia (26%) and Bosnia and Herzegovina (21%) than in the other WBT economies for which data were available, as well as the EU averages. The share was lowest in North Macedonia, at 3%.

### Personal use of e-commerce vs SME use of e-commerce for sales (2017-18)



Note: Data for Albania and Kosovo not available. 2017 data for Bosnia and Herzegovina not available. EU-13 average has been calculated as a simple average. EU-13 – Bulgaria, Croatia, Cyprus,\*\* the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

Source: Eurostat (2018), Eurostat (database), <https://ec.europa.eu/eurostat/data/database>.

## ACHIEVEMENTS

- 
- **All the WBT economies have dedicated institutions to carry out export promotion programmes.**
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- **Trade financing support mechanisms for exporting SMEs are widely available.** This is especially relevant to help SMEs bridge the gap between exporters' and importers' differing expectations about when payment should be made.
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- **Almost all economies have monitoring mechanisms in place for their export promotion programmes and export promotion agencies.** The economies have also improved their collection of data by enterprise size, as nearly all of them now regularly collect data recording SME-specific imports and exports.
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- **All the economies now address SME integration in global value chains in their relevant strategic documents and all have programmes planned.**
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- **Legal frameworks for e-payments and consumer protection in e-commerce are in place across all WBT economies.** The presence of legal frameworks is a step in the right direction, as they form a secure bedrock on which to build the operational environment for e-commerce.



## REMAINING CHALLENGES AND RECOMMENDATIONS

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- **Increase the human and financial capacity of export promotion agencies to provide more effective support to SMEs.** Moving from grant-only programmes towards a greater number co-financing schemes, as well as collecting affordable user fees, would be the first steps towards boosting agencies' resources and underpinning their financial sustainability.

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- **Boost export promotion agencies' efforts to monitor their programmes comprehensively, and assess their impact transparently.** Disaggregated data need to be systematically and regularly collected to allow for quantitative evaluations.

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- **Intensify efforts to raise awareness among SMEs of the opportunities associated with participating in global value chains.** The economies should provide access to accurate information on market opportunities for subcontracting and on potential foreign partners through market reports and databases, trade fairs, exhibitions abroad and electronic trading platforms or subcontracting exchanges.

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- **Implement programmes to enhance supplier quality of SMEs.** This assessment found that local supplier quality in the WBT economies remains a major impediment to SMEs wanting to integrate into GVCs.

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- **Design cluster development programmes carefully.** Empirical work on clusters advises policy makers to be cautious when interfering with local production structures, since they could spread themselves too thin.

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- **Develop and strengthen formal support mechanisms to encourage SME uptake of e commerce.** This can be done by making it easier to access e commerce sites and portals via co- financing mechanisms.

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- **Establish mechanisms to periodically evaluate and update regulatory frameworks** to keep pace with the evolving digital marketplace and to maintain a safe operational environment.





## ENDNOTES

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1. For more information on the institutions, please visit their websites:



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

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

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## SME POLICY INDEX

# Western Balkans and Turkey 2019

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

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

Against this backdrop, *SME Policy Index: Western Balkans and Turkey 2019* provides a comprehensive overview of the implementation of the ten principles of the Small Business Act for Europe (SBA) in the seven EU pre-accession economies over the period 2016-18. It aims to support the economies in evidence-based policy making, monitors progress against similar assessments performed over the past decade, and provides guidance to help them prepare for negotiating their accession to the EU.

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

